PROGRESSIVE COPARTNERSHIP

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BY

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London
NISBET & CO. LTD.
22 BERNERS STREET, W.1

First published in 1921

TO

MY WIFE

PREFACE

BUSINESS men, who are so misguided as to attempt authorship, must suffer many disabilities, their proper penalty for breaking the rules of demarcation.

A business man, who has written a book, is quite certain, for example, to be called a hypocrite, if he does not happen to practise in his own business everything he may preach in his book. He ought properly to write "without prejudice" at the top of every page. Here, of course, the professional writer gets his full revenge; indeed, it is usually he who makes the shocking discoveries of inconsistency.

And this enables me to say that for the views and opinions here expressed I am alone responsible, and that nothing I have written must be taken as involving any of the companies with which I am connected.

To which I hasten to add that my own interest and sincere belief in copartnership, as a practical plan suited for present needs, is based on personal

experience of actual copartnership for a number of years past.

Lastly, I have to express my obligation to the several copartnership firms, who have so kindly supplied me with the information and statistics required to bring a constantly changing story up to date.

E. W.

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" Whether, in some ulterior, perhaps some not far-distant stage of this 'Chivalry of Labour,' your Master-Worker may not find it possible, and needful, to grant his Workers permanent *interest* in his enterprise and theirs ? So that it become, in practical result, what in essential fact and justice it ever is, a joint enterprise ; all men, from the Chief Master down to the lowest Overseer and Operative, economically as well as loyally concerned for it ? "

THOMAS CARLYLE, *Past and Present* (1843).

PROGRESSIVE COPARTNERSHIP

CHAPTER I

THEORY OF COPARTNERSHIP

§ 1. The Problem

THE roots of the present industrial system strike down to the very beginning of civilisation, to that remote age "when Adam delved and Eve span." The history of the industrial system is a record of development from the simple to the complex, and it includes the story of some of man's greatest triumphs—incidentally, of his greatest miseries

Industrial evolution has been continuous in the past, and there is no reason to suppose it will be otherwise in the future. The present world-fever of industrial strife, to all who can read the portents, is sure proof that we have reached another critical stage in this process.

In its ceaseless march, humanity is once more at the crossways, and its further journey lies all

uncertain before it. Thus, the industrial problem can hardly be dissociated from the political—indeed, many would claim that they are identical.

The solutions offered by those schools which agree in condemning the present system, while they differ in the remedies proposed, all involve vast political changes—changes of the order of magnitude known as revolutions. Marx, the relentless enemy of the modern economic system, has bequeathed the doctrine of socialism—the common ownership of the means of production and the abolition of private property. His followers in Europe are divided into two parties—the one looking to revolution, the other to evolution, to attain this end. The demand for the nationalisation of industry by Act of Parliament, for example, is a demand of evolutionary socialism.

In France, Italy, Spain, and elsewhere, Syndicalism seeks to subvert industry by subtle methods of warfare—by "work to rule," sabotage, the general strike. Its method of organisation is through "industrial unionism." The end aimed at is the supreme control of each industry by the workers engaged in it, and the control of the State by councils of the industries—Soviet government, as it has come to be called.

In our own land of compromise, there has arisen the cult of Guild Socialism. The control of each industry by the workers is the aim of the Guild Socialists, as it is of the Syndicalists; but the central government is still to remain under the control of the whole people, as distinct from a proletarian class. Thus would the Guild Socialists steer between the acknowledged tyranny of Soviet government, on the one hand, and the deadly inertia of bureaucratic control on the other.

The anarchist, of course, goes further still, and would lead us to a community where none imposed his will on any other.

These are some of the proposed alternatives to our present system.[1] The doctrines involved are preached to-day by large bodies of men and women. In Russia they are being practised on an enormous scale, and in one form or another are being promulgated in every country of the world.

Whether we look on these doctrines as industrial or as political, it is certain that their origin is industrial.

The new era, which each revolutionary doctrine promises the worker, is pictured as an age where

[1] See *Roads to Freedom*, Bertrand Russell, 1918.

he is free from many present discontents: unemployment, under-employment, an old age of poverty; bad housing, poor education, insecurity of tenure; but more than that, it will bring him, he is led to believe, a greater share in the sum-total of the wealth he helps to produce, and therefore a better opportunity of sharing in the good things of his day and generation.

Whether in practice any of these ends would be attained is no part of our present enquiry.

It is, however, certain that these proposals involve the complete overthrow of the existing system, and that such a revolution, however desirable and excellent its ultimate aims might be, would be accompanied by a destructive upheaval of society and by civil war between opposed sections of the community.

These problems were not created by the Great War. They are old problems, shown up in their nakedness by the lurid light of the European volcano.

The inequalities and insecurities, which sometimes seem to be the sole birthright of the wage-earner, are ascribed by the revolutionaries to the existing capitalist system. The mouthpieces of revolution have always been most vocal when describing the evils of capitalism. Marx, in his

classical work, *Das Kapital*,[1] is much more occupied with carefully compiled examples of such abuses than with constructive doctrine.

And it is an interesting observation that many of the abuses detailed by Marx, who wrote in 1867, have in the meantime been swept away by political reforms. This fact does not destroy the Marxian philosophy, but it offers encouragement to those who believe that the capitalist system is a system in evolution, and that along the lines of that evolution we shall attain to true progress.

The so-called capitalist system, as we know it to-day, is the product of little more than a century. It represents the highest organisation of economic society which mankind has ever attained. The vast extent of this organisation, the complexities which have arisen from it, to say nothing of its comparatively short history, all leave it an easy target for criticism.

When we look back on the economic history of England, from the age of feudalism to the present day—when we consider the many changes of the last hundred years—the evolutionary nature of the industrial system seems self-evident.

[1] English translation, S. Moore and E. Aveling (W. Glaisher, Ltd., 1918.)

The development of the existing system, therefore, along directions that enable its present defects to be eliminated, can be presented as a logical alternative to methods of revolution.

Such development has the merit (at least) that it involves no disorganisation of society and that it preserves the undeniable advantages which the community derives from the existing system, while offering good hope of eliminating or minimising its disadvantages.

As we said, the problem is not new. It takes us back to Mill and Mazzini, to Robert Owen and Louis Blanc.

Mill himself first used the term "partnership" to represent the development of the industrial system, which seemed to him to be the inevitable solution.

During the last fifty years, one employer after another has attempted the empirical solution of the industrial problem along the lines of copartnership.

The difficult industrial situations, which have constantly arisen during and since the war, have led politicians of varying schools of thought to consideration of copartnership as an open way to industrial peace.

We shall discuss copartnership, then, as a development of the existing individualist system of private ownership of capital.

Its root principle is a partnership between the elements called Labour and the elements called Capital.

It aims not merely at the improvement of the material well-being of the worker, but also to raise his status.

This evolutionary view of copartnership was well expressed by Earl Grey, one of the most earnest advocates of copartnership, paraphrasing Mazzini: "From slave to serf, from serf to hireling, from hireling to partner." [1]

Our account of copartnership will be partly descriptive, taking account of actual copartnership schemes, past and present; partly analytical, attempting to assign to copartnership a definite place in economic theory.

The term "progressive copartnership," used as the title of this book, implies that ideal copartnership contains within it all the elements of true growth, and thus provides a system, adaptable to changing conditions in the future, a constructive basis for those who succeed us.

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[1] *Albert, Fourth Earl Grey*, p. 49, Harold Begbie, 1918.

§ 2. Elementary Principles of Copartnership

Under the modern industrial system, " labour " and " capital " work together to produce goods or services. There should result a surplus, or product, of which " labour " and " capital " each takes a portion.

Neither the historical origin of this arrangement, nor the discussion of the right of " labour " to the whole product of industry—the Marxian doctrine of surplus value—need detain us at this stage of our enquiry.

We assume that " labour " and " capital " are each entitled to a share.

But when we come to attempt to set down the principles of division between the two partners, we find ourselves in a difficulty.

No definitive theory of the division of the proceeds of industry exists.

" Wages," the convenient term for labour's share, are fixed empirically, mainly by the process of haggling—limited in one direction by the vague term " cost of living," in the other by " supply and demand."

The " wage-earner " receives his wages—the salaried man his salary—and the " employer "

takes the residuum, if any. We will use these terms—"wage-earner" and "employer"—in our present discussion, since they more accurately represent the present-day relationship of the partners of industry, the terms "labour" and "capital"—never exactly correct descriptions—having now attained political meanings, from which it is difficult to dissociate them.

The division of the product, wages to wage-earner, residuum to employer, may be, for all we know, the most correct division possible. But, as it is based on no exact formula, it is open to suspicion. It is hardly too much to say, that the nebulous nature of the division of the product is the root cause of all the troubles, which have overcome the modern industrial system.

As an instance, take the demand for increased production, which has figured so largely in recent years. The increase in national real wealth during the last century was mainly due to increased productivity, the result of invention and invention's twin—organisation. That increase of productivity is the source of increase of real wealth is universally realised. But what avails it, the wage-earner of to-day is thinking, to increase production, in so far as increase of production is within his power, if the increased

wealth which follows the increased production, simply swells the employer's "residuum" or profits? And, indeed, labour has not hesitated to put forward a claim for the whole increase of wealth, following increased production. Consciously or unconsciously, such considerations are the background of all the present difficulties which are thwarting the increased production, which is admitted to be essential, if we are to restore our position in the markets of the world.

It is the primary merit of copartnership that it provides a division of the proceeds of industry which has a definite basis. It may not reduce the division to an exact formula, and indeed no formula may be possible. Nor does it follow that its method of division is rational, however definite it may be. But it is none the less true that, by defining the method of division, it clears the way for removal of many difficulties, founded on distrust and suspicion, and enables the discussion of the distribution of the proceeds of industry to be carried out on a higher plane and in a more scientific manner than has hitherto been possible.

The copartnership method of division is very simple. As usually practised, it consists in payment of wages to the wage-earner in the usual

way, payment of simple interest on capital, and distribution of the balance, if any, between wage-earners and shareholders, in accordance with definite rules, which are fixed at the outset.

Copartnership is therefore built on the existing wages system, though wages do not constitute an essential of its plan.

It is, none the less, convenient to retain wages under a copartnership. At the present time, when copartnership practice is but sparsely spread throughout industry, any scheme which eliminated wages would be unworkable for many and obvious reasons.

And, further, we will find that in an ideal copartnership scheme—such a scheme as might be worked out for a nation, starting out in industry, with no trammellings of tradition and precedent—some payment to employees, closely analogous to wages, is a necessary part of the division.

We therefore assume wages as an integral part of a practical copartnership scheme, under present conditions. Their place in the copartnership formula can be defined very simply.

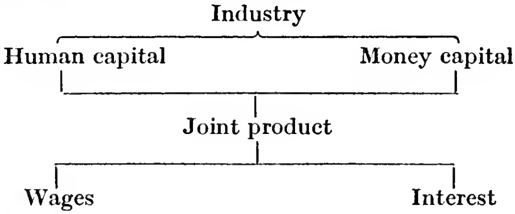
Copartnership, as its name implies, regards industry as a joint enterprise of two necessary components—a supply of capital and a supply

of labour. Both these components are essential under any organisation of society which we can conceive. Readjustment of the present *ownership* of capital is advocated by many people; but, whether this is right or wrong, the necessity of capital for industrial enterprise still remains.

If we delve a little deeper, we find that the supply of labour, which is equally essential in industry, is also in reality a supply of capital. Machinery, materials, are supplied by money capital—labour is supplied by human capital.

Every man who is engaged in industry has thrown himself—so much human capital—into the partnership. Simple interest is paid on money capital invested in the partnership, and we know that such payment is necessary to enable constant supplies of capital to be forthcoming. Wages are closely parallel, and are, in effect, simple interest on the human capital invested in the partnership. Since each man varies in ability and productivity, his capital value also varies; from which it follows that wages payments will vary with the individual.

If we accept this reasoning we arrive at the elementary formula of copartnership.



As stated, copartnership accepts existing wages as representing the correct payment under this head, mainly because it is most convenient to do so. The additional copartnership payments have the effect of adjusting any inequalities which may arise through acceptance of the present methods of calculating wages.

The essential feature of the above formula is the parallelism between wages and interest. In practice, it arrives at the same result as the current system, but the consideration of wages as a definite share of the product of industry, representing interest on human capital and sharing alongside with the money capital, which is paid simple interest, is in itself a considerable advance. This first simple formula of copartnership recognises and provides for the joint partnership of the two forms of capital. It gives the worker a status which he has never before enjoyed, and it enables us to approach the consideration of wages from a totally different angle.

§ 3. Human Capital

After application of the simple formula of copartnership, there may remain a further residuum. We shall assume that both forms of capital have assisted to produce this residuum, and we have therefore to provide a method of division, which will allot a fair share to human capital, in the form of an extra payment over and above wages, and a fair share to money capital, in the form of an extra payment over and above simple interest.

It is necessary, however, to point out that the assumption on which we proceed may not be correct. The current industrial system, for instance, is based on the assumption that human capital is not entitled to a further share in the residuum—a point of view rejected by advocates of copartnership.

Again, industry is but a means to an end, namely, to provide the community with the commodities and services which it requires for its existence. Both partners in industry are themselves servants; they are servants of the consumer. The product of industry, which we are attempting to allot, only arises when there is a net margin between cost of production and

selling price. It is the consumer, therefore, who actually provides the product of industry. In an ideal system of copartnership it may be necessary to introduce a third copartner, the consumer. This complication we leave on one side for future discussion, and for the present merely note it. We proceed to allot the residuum between human capital and money capital, leaving the consumer entirely out of our calculations.

Let us consider a commodity, produced by an industrial concern and sold at a price which is just and reasonable to the public. We have taken, out of the net proceeds, wages and simple interest, in accordance with our first formula.

A residuum still remains. We assume that the usual reservations for depreciation, etc., have been made.

Who produced the residuum ? It is impossible to give a general answer to this question. The operations of industry are so complicated, and values so transitory, that any exact analysis is entirely beyond our reach.

If we compare the costs of production of several firms engaged in the same industry we will find, over any given period, an extraordinary diversity.

The product may be made from the same raw materials and sold at the same price, but the actual costs, both in total and in detail, will show considerable variation.

One firm may have bought raw materials at the bottom, the other at the top, of the market; one firm may employ inventions which reduce working costs; one firm may be better "organised"—that is to say, the numerous interdependent processes between raw materials and delivered product may be so planned as to involve a minimum of extra cost due to delay, duplication, wasteful arrangements; one firm may have a large output, another a small output, compared with capacity; one firm may have subsidiary departments, eliminating "middle" profits. One firm may have a greater technical efficiency; one may have developed its selling organisation more extensively; or an old and established business may have low distribution costs, as against a new and developing business.

Again, through organisation, tradition, liberal remuneration, or other circumstances, the individual productivity of the workers may be greater in one factory than another.

Luck, an element which figures more largely in industrial enterprise than is generally admitted,

may have favoured the one firm as against the other.

Again, most large businesses are departmentalised, and some departments may be profitable, others unprofitable; the net available profits, in two analogous businesses, may be totally different from this cause; or one firm may have to pay a higher rate of interest on borrowed money, and so on.

These instances, which could be greatly expanded, suggest, incidentally, that if we are seeking to assign a share in profits to individuals, the term "wage-earner" will require some extension. Management plays an increasing part in the production of profits. In the earlier stages of the industrial system, management and ownership of capital were synonymous, and the owner of a business, in appropriating the profits as his own, was in reality carrying on the duties of management, in return for a fluctuating payment, namely, the profits of the business, after interest had been paid on capital invested. This dual function, performed by the older employers, undoubtedly led to much confusion, and to unfair deductions by the critics of the capitalist system.

We will need, therefore, in our analysis to deal with the claims on the residuum, both of wage-earners and of management. In our further

discussion, we will use the term " employees " as comprehending both classes, wage-earners and management.

It is equally clear that, while wage-earners could not produce goods without the materials, machinery and other provisions of capital, no more could management organise the production without the same provisions.

It may be argued that capital has already obtained sufficient remuneration in the simple interest, which it receives. But the same argument would be available to limit employees to their wages and salaries, leaving the residuum as no man's property—treasure-trove for the State.

Copartnership is based on individualism as an inherent trait in human action. If this assumption is correct, the residuum, under the circumstances just mentioned, would tend to disappear. Neither employee nor employer would receive it, for it would never be produced. The residuum of industry is, and always has been, the result of increased productivity on the part of one or all of the factors concerned, whether wage-earner, management, or capital. The residuum may have been unfairly assigned, but if none could share in it, it would never have been brought into existence.

THEORY OF COPARTNERSHIP

Copartnership aims to evoke increased productivity of all the factors concerned in industry, wage-earners, management, and capital alike, by guaranteeing to each factor its reasonable share of the product. This dynamic view of copartnership is essential. Copartnership is above all a productive scheme, not a mere sharing-out device.

And it will thus be seen that, by applying the conception of "human capital," contributed by the human copartners, in further copartnership with "money capital," the savings of the community, as the basis for the division of the proceeds of industry, we have arrived at a theory of the industrial system which, whether acceptable or not, is, at any rate, rational.

The essential feature of the industrial revolution was the severance of the worker from ownership and control of the instruments of production. In so far as the old domestic system in manufacture and agriculture may have been excellent, it could only be restored to-day by a reversion to the conditions of that time—in other words, by returning to a debased standard of living.

Under the old system, the craftsman applied his human capital, in conjunction with his material capital (his tools and simple stock-in-

trade) and the two forms of capital being vested in the one owner, no question of division of the proceeds arose.

The complexity of the modern system—and incidentally that development of division of labour, which separates the employee from ownership of capital—has created the problem of distribution. Copartnership aims to solve this problem by recognising " human capital " alongside " money capital," and thereby goes a long way towards restoring the ancient status of the worker.

Under the old domestic system, each individual worker put into his art or craft both human capital and money capital. When the domestic system gave place to the industrial system, the full claims of human capital were lost in the process. Copartnership reinstates those claims. True, the ownership of the two forms of capital has become separated: copartnership aims, further, at restoring this position, in so far as it is possible, under the conditions of modern industry. Copartnership implies not merely a division of the residuum by a recognition of the claims of human capital, but it seeks to make every owner of human capital an owner of money capital also.

Copartnership is quite different from profit-

sharing. Profit-sharing is nothing more than extended wages, the share of profits being fixed on an arbitrary basis by the employer. The share of profits received by the copartner, on the other hand, has a rational basis, such as we have outlined.

But, beyond that, copartnership provides for the acquisition of capital holding by the copartner. Any scheme which does not provide for such acquisition on simple, easy terms cannot be described as a copartnership, but belongs to the category of bonus payments, one of the many devices, with which the wages system has been bolstered up. Successful as these devices have often been, they have no assurance of permanence. They embody all the defects of the simple wages system. They carry with them no proof that a square deal has been made.

If we can prove, argue the advocates of copartnership, that the principles of copartnership division are just and equitable, even though there may be no considerable redistribution in consequence, and though the relative economic position of most employees may be unchanged, none the less, the substitution of just and equitable principles for the uncertainties of the wages system will breathe a new spirit into industry, and men

will be able to devote to production and invention the energy, which at the present time is so largely dissipated in industrial strife and dissension.

§ 4. The Basis of Copartnership Division

We have stated the fundamental basis of copartnership to be recognition of the rights of two forms of capital—money capital and human capital.

It now remains to devise a formula for division of the residuum, amongst these two copartners.

Money capital is represented in £ *s.* *d.*, but human capital is more difficult to define. In the various copartnership schemes which are in existence, and which are described in later chapters, the methods of dealing with this problem vary considerably. In general, it may be said that copartnership schemes have been created by generous employers, desirous of improving the existing system. They have rarely, if ever, been based on any theory, and the formulæ for the distribution have been arrived at empirically.

The general method, adopted in existing copartnerships, is to share the residuum, or surplus, on the basis of the total of the wages and salaries bill, or pay-roll.

A definite £ *s. d.* total is thus allotted to the employees as a group.

The individual apportionment is then made on a similar basis of individual earnings, which may be weighted in various ways to allow for grading.

We can distinguish, in existing schemes, three separate formulæ for the division of surplus between shareholders and employees. After all profit-and-loss account adjustments and payment of interest on the capital employed :

(1) The surplus is divided *equally* between shareholders and employees ; or,

(2) The surplus is divided *proportionately* to capital and pay-roll ; or,

(3) The surplus is divided *proportionately* to interest on capital and pay roll.

For example, in a business—capital £500,000, total net earnings available for dividends £48,000, pay-roll £100,000—the division would be as follows :

after payment of, say, 5 per cent. interest on the capital, there remains a surplus of £23,000, divided thus :

Method.	To shareholders.	To employees.
1 . . .	£11,500	£11,500
2 . . .	19,167	3,833
3 . . .	4,600	18,400

The third method of calculation, it will be

observed, reverses the proportionate payments to the shareholder and employee copartners.

In the second method, the result is usually stated as a dividend on wages. By this method obviously the division results in the same percentage dividend on wages, as on capital. In the above example, the division yields a 3·83 per cent. dividend to both copartners; in the case of the shareholders, this is, of course, additional to 5 per cent. reserved as interest, and paid out prior to the copartnership division. The first method gives equal total shares, but different dividends to shareholders and employees.

In the above example the total dividend on capital would be:

Method	per cent.
1	7·3
2	8·83
3	5·92
Non-copartnership division	9·6

The dividends on wages would be:

Method.	per cent.	Equivalent to extra weeks' wages.
1	11·5	5·98
2	3·83	1·99
3	18·4	9·56

We have assumed that the whole of the capital is homogeneous, and not divided into blocks. This is, however, unusual, and it is common in profit-sharings and copartnerships to associate

with the pay-roll in the division, not the whole capital, but the ordinary capital, or common stock, which in a non-copartnership business would receive the whole of the residuum.

Where the first formula, equal division of the total residuum, is adopted, this makes no difference to the sharing.

In the other formulæ, where the division is proportionate, the amount of capital in proportion to pay-roll is reduced, and the proportionate share of employees thereby increased.

Thus, in the foregoing example, dividing with ordinary capital, in varying proportions of the total capital, we get the following results:

Ordinary capital.	To shareholders method 2.	To employees method 2.	To shareholders method 3.	To employees method 3.
£100,000	£11,500	£11,500	£1,100	£21,900
200,000	15,340	7,660	2,100	20,900
300,000	17,250	5,750	3,000	20,000
400,000	18,400	4,600	3,833	19,167
500,000 (i.e. the whole capital)	19,167	3,833	4,600	18,400

The division of capital into preference shares, ordinary shares, and other groupings is entirely a matter of financial organisation. In effect, the owners of priority shares give up their chances of higher dividends against the increased security and priority, which they obtain.

The capital employed in the business may earn an overall dividend in excess of fixed interest rates, in which case the ordinary shareholders receive the whole of the excess in accordance with arrangement.

It would seem the most equitable method of applying formulæ (2) and (3) to a copartnership business, with its capital divided into blocks, to bring the whole of the capital into the calculation, and not merely the ordinary capital. The share of surplus allotted to capital would, of course, be distributed to the ordinary shareholders only.[1]

Thus, in the foregoing examples, if this method of division were adopted the ordinary dividend would be :

Ordinary capital.	Method 1.	Method 2.	Method 3.	Method 2.	Method 3.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
£100,000	16·5	24·1	9·6	16·5	6·1
200,000	10·75	14·58	7·3	12·67	6·05
300,000	8·83	11·39	6·53	10·75	6·0
400,000	7·9	9·79	6·15	9·6	5·96
500,000 (i.e. the whole capital)	7·3	8·83	5·92	8.83	5·92

[1] Subject to any necessary adjustment arising from interest or dividend rates on the prior capital, different from the "reserved limit" (taken in our examples, as in most actual schemes, at 5 per cent).

The last two columns show the corresponding ordinary dividends, where the proportionate sharing is with ordinary capital. As previously mentioned, under the first method of equally dividing the available surplus, no discrepancy arises.

The third formula, which gives such generous share of surplus to the employees, is the method of division adopted in the notable Godin scheme [1] and in one other—an American copartnership.[2]

Godin justified this method on the ground that interest is the wages of capital, and that the division should therefore be:

Wages of capital (i.e. interest on capital)	Wages of labour

By this means, profits, said Godin, are "divided in proportion to the labour rendered by each."

This idea of interest as the wages of capital goes back to the early Socialists. It was a favourite theme of Robert Owen.

A method of division proposed by Professor Babbage, nearly a century ago, one of the earliest of copartnership proposals, quoted by

[1] P. 114 [2] P. 151.

Mill,[1] was based on an amalgamation of ten workmen owning, say, £40 each, and four small capitalists owning, say, £200 each.

The wages paid to each workman would be fixed at about half their market value, say, £1 a week. Capital would count as one workman, and would receive the same wages, £1 a week. Each week the profits would be divided and added to the wages of labour and capital in equal parts, capital counting as one worker.

We continue this interesting quest for a common denominator of the two forms of capital in the following section.

§ 5. Valuation of Human Capital

The problem before us is to find a method for the valuation of human capital in £ *s.* *d.* terms, comparable with the familiar valuations of material capital, which is either money or goods, purchased with money.

We come back to the elementary formula of copartnership :

Joint product

Interest — Wages

[1] *Economy of Manufactures and Machinery*, 1832, p. 766, J. S. Mill (Ashley's edition).

We suggested that there exists a definite parallelism between simple interest, paid on material capital, and wages, paid on human capital.

Just as the average interest rate (security and other things being equal) is the minimum rate which will educe the required amount of capital, so the basis wage of our formula is also a minimum. It is the minimum, which will just maintain the wage-earner in subsistence, under the existing conditions.

Our elementary formula, therefore, should be rewritten :

Joint product

Simple interest | **Basic wages**

The earnings of labour may actually be no more than the basic wage ; rarely in these days do they fall below ; while frequently, they are considerably above it.

The Physiocrat school of economists in France held the doctrine that this basic or subsistence wage could never, in the long run, be exceeded. Their observations, based mainly on agricultural labour, led them to argue that, should earnings increase above the subsistence level, an increase of population would follow, thus restoring the equilibrium. On the other hand, if

earnings fell below subsistence level, population would decline and the shortage of labour would bring up the level of wages.

This theory of wages has been the subject of severe criticism, but it is a mistake to regard it as obsolete. All the world over, it remains true for agricultural labour, except in so far as man's enterprise and invention is able to thwart the law of diminishing returns, which applies to all agricultural industry.

When the era of manufacture commenced, the employers of labour approached the wages question, strongly influenced by the theory of the Physiocrats. Whether they had studied the theory or not, the "iron law" was in accordance with all experience and observation in England up to that time.

The wages paid to workers, therefore, in the early days of the industrial system in England, fluctuated around and about the bare minimum of subsistence.

While the workers starved, the employers grew rich and prosperous. The reason is not far to seek. The industrial system, as much by its increased use of the grouping of workers and division of labour as by the use of machinery, created a vastly increased productivity.

Wherever productivity is increased, whether by invention or any other means, the product of industry is likewise increased. The early employers received the benefit of the increased product, but they failed to share it with the workers.

Without this increased productivity, and under normal conditions of competition, the Subsistence Theory applies, and it applies equally to wages and to profits. Labour and capital, alike, find it difficult to get even bare subsistence—basic wages, simple interest—out of an industry which is not increasing in productivity. But where productivity is increasing, the joint product, after providing basic wages and simple interest, leaves still a surplus, which, under copartnership, we claim as jointly to be shared between labour and capital.

In the early days of industrialism, the whole of this surplus was appropriated by employers and capitalists. Later, as the workers developed their claims, they received higher wages out of the surplus. Between 1850 and 1900 real wages in the United Kingdom are estimated to have doubled.[1] It is not too much to say that the whole of this increase came out of the surplus, created by increased productivity, past and present.

[1] *National Progress*, p. 33, A. L. Bowley, 1904.

Over and above simple interest, then, the owner of capital, as the reward of enterprise and sacrifice, expects an additional payment, namely profit. Profit is, in fact, the share of the surplus created by increased productivity, which capital claims for its own.

Similarly, labour has a claim to a share in the surplus for something over and above basic wages.

Our formula, indeed, needs to be revised:

Joint product

Simple interest, *plus* share of surplus or profit	Basic wages, *plus* share of surplus or profit

This claim of labour to a share in the surplus is no new discovery of the advocates of copartnership. It has been the motive force behind the increases in real wages, which were continuous during the greater part of the nineteenth century. It is the *leitmotif* of all the claims, which labour has hurled at the heads of employers in recent years.

But, just as the employer is apt to amalgamate interest and surplus and to call the gross total "profits," so in these successive wages increases, there has been no distinction made, between subsistence wages and surplus wages.

This constitutes a real difficulty in the construction of a scientific theory of copartnership.

What we call to-day "good" or "high" wages are really wages which contain some surplus or profit; and for all we know may contain all the share of surplus which is justly due to the wage-earner.

Many classes of manual workers have probably already received their full copartnership earnings, but with this difference: they are disguised as wages, and they have been obtained by methods of "wedge and screw," not as the result of a consistent method of calculation.

So long as the share of the workers is allotted in the present haphazard fashion, so long will industry be the scene of continuous strife. First one side, then the other, will succeed in obtaining an undue share. Without some formula, such as we are endeavouring to work out, even if it is to be used only as a check or reference, the present empirical methods of distribution of the national dividend turn labour and capital into two standing armies, ready at all times for instant mobilisation against each other.

Having no tests or standards of evaluation, save the extremes of starvation on the one

hand and financial ruin on the other, the struggle can never cease, except from exhaustion.

Jevons, who frankly concludes that no formula for division of the proceeds is devisable, compares it to a witches' cauldron :

> " Double, double toil and trouble ;
> Fire burn and cauldron bubble."

" The point of the matter," says Jevons,[1] " is that, like the contents of the cauldron, the results of production form a joint result or medley. All the constituents are thrown into hotch-potch, and, as it is impossible to say what part of the product is due to any of the contributions thrown into the cauldron, no natural, necessary, or legal principle of dividing the proceeds can be assigned."

If this be so, it must be agreed that, under modern organisation of industry, we are doomed to perpetual strife around the cauldron.

Let us now turn again to our elementary formula, from which we may hope to elicit results which will falsify Jevons's pessimism.

Our formula demands that, corresponding to simple interest on material or money capital, there is paid simple or basic or subsistence wages to labour.

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[1] *The State in Relation to Labour*, p. 93, W. S. Jevons, 4th ed., 1914

Rates of interest fluctuate. The same causes which produce fluctuations in the rate of interest tend to produce fluctuations in the rate of wages. An inflated currency implies both increased rates of interest and increased rates of wages, in both cases to meet the degree of inflation. An increased demand for capital raises the rate of interest; and the utilisation of this capital tends to create an increased demand for labour, and thus to raise wages rates. Over long periods the fluctuations of interest rates and wages rates follow each other with fair parallelism.

Average simple interest represents the minimum which must be paid to evoke the money capital required; the average basic wage represents the minimum which must be paid to evoke the human capital required.

If these definitions are accepted, we can proceed to find a value for "human capital" with some degree of accuracy.

It follows from our formula that simple interest on human capital value = basic wages.

The parallelism between wages and interest is sufficiently strong to enable us to claim that the rate of simple interest will be the same for both forms of capital, and that the one will follow the other in its fluctuations.

Rewriting our formula, we get :

Joint product

Simple interest on material capital, *plus* profit	Simple interest on human capital, *plus* profit

In any industry or undertaking the rate of simple interest on material capital and the valuation of that capital is known. We have agreed that the rate of simple interest on human capital shall be reckoned the same as on material capital. Thus we have only one unknown quantity, namely, the valuation of the human capital.

But we have already seen that simple interest on human capital value = basic wages. The valuation of human capital is thus so many years' purchase of the basic wages, depending on the rate of simple interest.

Rates of interest at the present time are in a state of flux, and it will probably be the simplest plan to work on an average pre-war rate of interest, say 5%.

From our formulæ :

Basic wages = simple interest on human capital,

i.e. 5% on human capital ;

therefore,

human capital = 20 years' purchase of basic

wages.[1] The rate of interest chosen does not actually affect the calculations, as can be easily shown.

In a business, for example, material capital £500,000, wages bill £100,000, interest at 5%, we should calculate as follows:

Interest to capital, 5% on £500,000, £25,000.

Interest to labour, 5% on 20 years' basic wages, £100,000.

Suppose that interest rates are taken at 7%. Our calculation would then be as follows:

Interest to capital, 7% on £500,000, £35,000.

Interest to labour, 7% on $14\frac{2}{7}$ years' basic wages, £100,000.

Inasmuch as the number of years' purchase taken to arrive at the valuation of human capital varies with the interest rate, it will be seen that the formula remains constant, whatever the rate of interest ruling.

If the second calculation be taken to represent the working of the formula, when interest rates have advanced from 5%, previously ruling, to 7%, it must be borne in mind that, under such circumstances it is probable that the same causes which

[1] A similar result is obtained, if we calculate the "present value" of the wages which would be received by a wage-earner within his average expectation of life.

have raised the rate of interest may have raised the basic wages also, thus increasing the amount allotted under this head to labour, probably to the same extent as the interest to capital is increased.

This brings us to a further difficulty. When we come to actual practice, under conditions as they exist to-day, we are not dealing with basic wages at all. We are dealing with wages which include minimum wages, output bonus, commissions, extra payments for responsibility and individual skill, as well as such share of surplus, large or small, as may have been gained in the continuous revisions of wages and conditions, especially during the years since 1914.

The pay-roll of any business is the *omnium gatherum* of all these payments to employees. It is a composite total, and as such does not represent the simple total of basic wages, with which total we are specially concerned at the moment, mainly because we have seen that it would enable us to arrive at a valuable factor for our calculations, namely, a valuation for human capital.

Nor, indeed, have we translated our definition of the basic wage—the minimum payment which will evoke the human capital required in industry—into terms of measurable units.

At present its only use in our discussion is to provide a theoretical figure for the valuation of human capital. But all our statistics being in terms of *actual earnings*, it is necessary that we should adopt some conventional relationship between basic wages and such actual earnings.

Remembering that the totals of actual earnings, the pay-rolls, with which we shall be dealing in working out a practical scheme of copartnership, include every employee from top to bottom, management, skilled men, unskilled men—bearing in mind also that probably the lowest wage paid in any industry to-day is well above the basic wage of our theory—we are overstating, rather than understating, the relationship by adopting, as is now proposed, 75% as the ratio between actual earnings and basic wage. Thus, in a business with pay-roll of £100,000 we would consider that 75% of £100,000 = £75,000 represented basic wages.

Taking this ratio and working on a simple interest rate of 5%, we can now further simplify our formula:

Joint product

Simple interest on material capital, *plus* profit	Simple interest on 15 years' purchase of actual earnings *plus* profit

Our previous value, 20 years' purchase of basic wages, becomes 15 years' (i.e. 75% of 20 years') purchase of pay-roll or actual earnings, and we have a formula in which all the values are known in any given business.

We must note very carefully, however, that this is only a *working* formula. The previous formula, 20 years on basic wages, is an *absolute* formula (always assuming the logic which led up to it to be accepted). Basic wages represent an absolute value as previously defined—actual earnings are a hotch-potch. Fluctuations in the actual earnings would affect our working formula, which depends entirely on the accuracy of the adopted 75% ratio between earnings and basic wages; not only its accuracy to-day, but its accuracy to-morrow, and its accuracy in any particular industry or undertaking.

This conception of interest on human capital, which forms the basis of our theory, is the copartnership equivalent of the socialist's "wages of capital."

A similar idea formed the basis of one of the earliest profit-sharings, the scheme introduced by Lord Wallscourt on his Irish estate in 1829. The method of division adopted was "to reckon every workman as the investor of such

capital as will yield at 5% the sum paid to him in wages."[1]

§ 6. The Complete Formula of Copartnership

The complete formula of copartnership is now available.

We assume the method of valuation of human capital, worked out in the preceding chapters, and for simplicity's sake we take the rate of interest at 5%.

We take the joint product, that is, the total earnings of the business, *before wages and salaries have been paid*, but after deducting all other usual charges.

(1) We first allocate to employees 5% on the human capital.

(2) We next allocate to shareholders 5% on the material or invested capital (the "reserved limit").

(3) We take the *surplus*, if any, dividing it into two portions, and we allot the first to human capital, the second to invested or material capital, in exact proportion to the totals of these forms of capital. Neither of the two capital groups has priority over the other in this distribution.

[1] D. F. Schloss, *Board of Trade Report*, 1894, p. 25.

(4) We have thus allotted two portions to employees and two portions to shareholders.

Shareholders	Employees
5 % on material or money capital invested [1]	5% on human capital employed [1] (i.e. on 15 years' earnings [2])
plus the share of surplus	*plus* the share of surplus

(5) The total share thus allotted to capital is divided amongst the shareholders in accordance with the method which has been adopted for distribution of the available profits.

(6) The total share allotted to employees is diminished by the wages, salaries, etc., forming the pay-roll, paid in the usual manner—that is, in advance—and the balance is then distributed to the individual employees in proportion to the individual human capital each represents, or by other methods of distribution which may be adopted.

To put the distribution in concrete form, we will allocate the joint product in the supposititious case previously examined.[3]

The case was that of a company with capital

[1] Or other interest rate; but the rate must be the same for both forms of capital.

[2] Varies with the rate of interest.

[3] P. 23.

£500,000, total net earnings £48,000, pay-roll £100,000. Thus, the total joint product is £148,000. The nominal human capital employed is 15 years' purchase of the wages, £1,500,000.

(1) We allot to human capital 5% on £1,500,000	£75,000
(2) We allot to material (invested) capital 5% on £500,000 . . .	£25,000
(3) We take the balance, viz. . .	£48,000

and divide it over £1,500,000 human capital and £500,000 invested capital proportionally, say £36,000 to human capital, and £12,000 to invested capital.

(4) The total allotted to invested capital is thus £25,000 interest, *plus* £12,000 profit, £37,000, equal to an overall dividend on capital of 7·4%.

(5) The total allotted to human capital is:

£75,000 interest, *plus* £36,000 profit	£111,000
Deduct pay-roll disbursed in advance	100,000
There remains . . .	£11,000

This is paid to the employees as an 11% dividend on their total earnings for the year or divided in

other ways in accordance with prearranged plan. This dividend is equivalent to 5·72 weeks' extra wages.

Now, in the supposititious case just examined, let us suppose that by increased productivity the joint product is increased from £148,000 to £177,600—that is, by 20%. The balance to be shared would be increased from £48,000 to £77,600, and the total share of human capital, after deduction of wages and salaries paid on account, would be £33,200, or 33% on salaries or wages, over 17 weeks' extra wages.

Invested capital would likewise share in the increased productivity, receiving £7,400 additional remuneration, or 1·48%.

The claim of invested capital to this sharing is based on the truth that, just as increased productivity of the employees is thrown into the pool, so also is increased productivity due to good organisation of capital, in the benefits of which, under copartnership, the employees share equally. In practice, the pool of returns from increased productivity receives contributions from both sources and both forms of capital are entitled to share in it.

It will have been noticed that, using the values which we have inserted in our formula—15 years'

purchase of actual earnings and 5% simple interest—the total allotted to human capital, under the heading basic wages, corresponding to simple interest, will always be 75% of the actual earnings. Thus, the employee has theoretically always to obtain the further 25%, making up his total earnings or payments " on account," out of the pool or residuum.

This position follows as the result of the method of calculation which we have adopted, and is not in any sense an arbitrary arrangement.

Incidentally, it forms a safeguard—if not a complete, at least a partial, safeguard—against a difficulty which confronts every application of copartnership principles to the existing wages system. The continuous efforts of trade unions to raise the standard of wages have brought them all to a point, where in most cases it is quite frankly admitted that the aim is to secure for the workers, in the form of increased wages, some sharing in the surplus of industry.

It is hardly likely that these efforts will be relaxed in the future.[1] Thus we have to consider the complicated case, where an enterprise or an industry is working on a copartnership basis,

[1] Resistance to reductions on a falling cost of living is obviously of the same order.

distributing a share of surplus to employees, on a strictly defined and rational scheme, based on wages; while at the same time the employees, through their trade unions, are obtaining increases in wages, which in themselves represent actual sharing in profits.

If, as many believe, the evolution of industry is rapidly bringing us to an era of copartnership production, it is impossible to suppose that the present haggle for wages will continue. Theoretically it has no place whatever in an ideal copartnership.

Under ideal copartnership, every employee receives basic wages as simple interest on human capital paid out weekly or monthly, actually in advance of its realisation—paid out of floating capital in fact.

Any addition to basic wages he receives from the joint surplus, shared in the proportions laid down under an agreed formula.

The only wages problem which can arise, therefore, under ideal copartnership, would concern the valuation of the basic wage. This is a value which, we suggest, should be arrived at on purely scientific lines, by statistical calculation, and not subject to bargaining in any sense.

But in the interim the copartnership firm will

face a double racket. It is bound to accept the existing wages system, and to incorporate wages in its copartnership scheme. In so far as existing wages contain an element of surplus or profit, the wage-earner has a prior advantage, in that he receives his wages even though the calculation shows he has not earned them in full.

To illustrate by a concrete example: in the supposititious case which we have previously explored,[1] suppose the total joint product reduced to £120,000, all other values remaining the same.

The allotment is as follows:

Basic wages to human capital . .	£75,000
Simple interest to material (invested) capital	25,000
Total	£100,000
Leaving a balance of . . .	£20,000

This is divided between human and material capital, £15,000 and £5,000 respectively.

The total receivable by human capital is thus £75,000 interest, *plus* £15,000 profit, £90,000.

But we are working on a pay-roll of £100,000, and this has already been paid out, so that human capital has received in this case considerably

[1] P. 43.

more than its fair share, at the expense of invested capital.

This example illustrates our meaning when we say that the acceptance of the existing wages system (which, of course, involves payment of standard wages rates) gives the employee a prior advantage—indeed an undue prior advantage. The only priority to which he is truly entitled is payment of basic wages at simple interest rates on human capital employed; this precedes simple interest on invested capital. As for the balance, there is no priority, each form of capital should share *pari passu*; any payment of a surplus, in the form of wages in excess of the basic wage, under an ideal scheme would be at no higher rate than forecasts showed the business would be expected to produce as human capital's share, when the calculation came to be applied, and strictly disbursed as payments in advance.

In a highly developed scheme it would be permissible, in making the calculation, to debit to the wages account the interest on the money paid out in advance. If the total wages received by the employees in a business coincided exactly with the total share due to them under an agreed copartnership formula, such definitions as Hadley's that "wages are the discounted pro-

duct of industry" would be scientifically accurate.

At the present day, a comparatively small number of firms are working on a copartnership basis. Even if the movement towards copartnership receives, as is probable, a great impetus during the next decade, it would be difficult to imagine that the copartnership undertakings will be other than a minority.

The existing methods for adjustment of wages are frankly intended by trade unions to take the form of continuous attacks on the product of industry, with the object of obtaining for the workers the fullest wages that the industry will bear—that is, the fullest share of the proceeds, even if it be a share which, by the turn of the wheel, is such as to leave capital starving on the doorstep.

These methods will presumably continue, even though the volume of copartnership greatly increases. It would be very difficult for any copartnership firm to contract out of current wages payments. To do so would be to create an atmosphere of suspicion fatal for final success.

Eventually, as the deeper truths of copartnership become realised, by employer and employed alike, copartnerships will be possible which

eliminate wages except as payments on account[1]; but this is a future of perfection which is far ahead of present possibilities. If a whole industry were to adopt copartnership, such a consummation would be brought appreciably nearer.

Our standard formula, applied to the copartnership division, checks these inroads to some extent.

The ordinary formulæ, as can be seen, provide no check whatever.

Under the standard formula, as we have shown, if the total share of surplus calculated to be due to the employee-copartners equals, or falls short of, the sum, which has been paid to them in wages, then, automatically, no further share of surplus is allotted.

But in none of the methods, as they stand, can we prevent the whole of the wages remaining a first charge on the copartnership.

It is, however, possible, along the lines of our theoretical method, to introduce a further factor, which tends to restore the equilibrium.

Instead of raising the value of the human capital to correspond to every increase in actual wages, as distinct from increase in basic wages,

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[1] For an example see p. 152.

the original, smaller value may be retained in the formula, thus tending to redress the balance.

The calculation may even then show that the copartners have been overpaid, before any distribution of surplus comes to be considered.

On the ordinary methods of copartnership division, the greater the increase in wages, the less is the surplus to be shared ; while at the same time, the greater is the share of the surplus taken by the employee, because his proportion is based on his wages.

(Where the sharing of the surplus is half and half, this latter disparity is eliminated.)

Our ideal formula corrects these discrepancies, but obviously cannot prevent excessive payment to employees in the form of wages, which have been the subject of previous contract.

It precludes any further excessive payment, and it brings out clearly the amount of the excess paid in the wages, where such has been the case. In this purely negative way, the calculation is of great value, for it forms the profit and loss account of joint capital and labour, when they have worked under non-dividend earning conditions, and the study of a profit and loss account of this character cannot fail to be a valuable corrective in any industry.

Even if the application of the ideal formula were to lead generally to negative results, such as we have outlined, the calculation would not have been unprofitable. In the majority of industries, in which copartnership is likely to be applied, positive results are more probable than negative results.

Whether the results on to-day's showings would be negative or positive, the advocates of copartnership believe that in every industry the results can be made positive, because true copartnership can bring such increase in productivity, such reduction of waste and loss, as will invariably increase the total product of industry, available to be shared, under copartnership, by all the factors that have produced it, in accordance with reasonable methods of division.

In our comparisons we have, of necessity, eliminated these possibilities. The calculations are but the letter of copartnership: the spirit of copartnership is in its possibilities in the increasing of wealth and of human happiness—"the letter killeth, but the spirit giveth life."

CHAPTER II

COPARTNERSHIP METHOD

§ 1. Distribution of the Copartnership Dividend

THE distribution, to the participants, of the share of surplus, allotted to labour and management under a copartnership, in its simplest and most usual form, consists in dividing the available total in the proportion of individual wages and salaries.

To justify this method, as consistent with an ideal scheme, we must assume that the relative capital value of each employee is correctly represented by his wages or salary.

Under a perfect copartnership, we should have eliminated wages altogether, but we would still require some system of grading.

For example, the unskilled labourer is worthy of the same hire everywhere; he has a fixed value to industry. If we grade him at 10 units of human capital, such grading would be applicable to every industry in the country. Proceed-

ing on these lines, the semi-skilled worker might be graded at 15 units; the skilled worker at 30 units.

Responsibility is an important element in assigning values. It can be graded in much the same way as varying skill.

Thus we have:

(*a*) responsibility as regards the particular job done;

(*b*) responsibility for machines and other fixed capital;

(*c*) responsibility for a series of jobs or a process;

(*d*) responsibility of control over a small section of workers;

(*e*) responsibility of control over a large section or department of workers;

and so on. For each of these grades we might increase the units, representing human capital value, by an assigned percentage.

In addition to the nature of the work done and the share of responsibility carried, length of service has some claim to consideration in copartnership grading.

Copartnership or no copartnership, the man who spends his life-time in a business (assuming it to be properly controlled) must bring to it a

higher capital value than a mere casual sojourner. His close knowledge of the business must make him more valuable, even in a menial job. His long service must have inspired in him a loyalty to the firm and a freedom from restlessness, which raises his morale, and therefore his capital value to the concern.

On the other hand, the extent to which individual services rendered should be rewarded in the grading is a moot question.

The worker without responsibility should have been rewarded for any special individual efforts, prior to the copartnership sharing.

Even under a copartnership which eliminated wages, it would probably be desirable to retain payment by results [1]; certainly, at the present stage of progress, when copartnership can only exist alongside the wages system. If this is so, the manual worker has already received payment for his individual special efforts.

As regards management, it seems right to assume that its extra grading in the distribution is partly in respect of individual achievements. Successful management is, indeed, one succession of individual special efforts.

We conclude, therefore, that specific individual

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[1] Cp. p. 112.

performance need not be considered in the grading.

Individual failure to achieve, on the contrary, might well be taken into consideration. The acts of an individual employee may be such as to make the deprivation of copartnership rights his most suitable punishment. A powerful method of disciplinary control is thus made available; but all such weapons need to be carefully handled.

It should be noted that in most existing copartnership schemes, where the division is based on the pay-roll, the earnings taken into account are the day-work rates or minima, extra earnings on overtime, piece-work and the like not being included in making up the total.

Another method of grading is by grouping. Under such a plan, all workers of one type are included in one group, as unskilled labourers, foremen, junior clerks, senior clerks, etc.; or the grouping may be even less detailed, as unskilled, skilled, skilled with responsibility, management.

We may then allot a proportion of surplus to each group, in proportion to its total pay-roll, dividing *within* the group, equally and without reference to individual earnings. Or the index method may be applied to the groups, instead of to individuals. Thus, the unskilled group may

be weighted at 10 units, the semi-skilled group at 15 units, and so on, the division within the groups being equally over the individual members.

In the descriptions of copartnership schemes which follow, it will be seen that great variety exists in the methods of allocation.

In France, the Godin scheme recognises four classes of employees, receiving shares in the proportions 2, 1½, 1, and 0 respectively.[1] In addition, there is an extra sharing for "ability." La France Assurance Co. makes a division:

35% in proportion to salaries,
35% in proportion to length of service,
30% being available for exceptional services or necessitous cases.

Messrs. Breguet, Paris, weight the share by 2% for each additional year's service, up to 50%.

The French have, indeed, developed grading to a fine art. In the Carvin mines, Pas-de-Calais, each year of service counts 2 marks, each son, or son-in-law working for the company counts 10 marks, skill and efficiency 1 mark up to 10 marks, acts of courage 1 mark up to 15 marks, and punctual attendance the same. The Laroche-Joubert scheme grades both for length

[1] P. 114.

of service and importance of duties, in accordance with a detailed table.[1]

In England, J. T. & J. Taylor, Ltd., give a double share to employees of five years' service, who hold shares equal to half a year's earnings.[2]

W. Hollins & Co., Ltd., give two shares to women, three shares to men, and four shares to foremen.

Lever Bros., Ltd., grade first by groups, then by individuals within groups. The cumulative nature of the copartnership certificates, which form the basis of this scheme, gives, in addition, considerable weighting for length of service.[3]

These methods of distribution can, of course, be applied to profit-sharings, just as to copartnerships.

Where the grading is by weighting the shares of individuals, the weighted totals should not be used in the division of surplus, if this is on a basis of pay-roll, or the share of employees is unduly increased. This is a defect of the Godin scheme.[4]

In practically all copartnership schemes, the shifting population is not included; usually one year's service, sometimes several years' service,

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[1] P. 155. [2] P. 143. [3] P. 145. [4] Cp. p. 122.

is a requisite qualification for entrance to the copartnership. The Dennis scheme,[1] which is applied to agriculture, on the other hand, recognises casual service.

§ 2. Acquisition of Capital by Copartners

Once upon a time, it may be supposed, capital, management, and labour, the three separate elements of modern production, were united in the same person, and the worker was owner of his simple tools of production and master of his own time, subject only to the inexorable laws of nature.

To restore man to this "natural state" has been the aim of reformers back to Jean Jacques.

Literal restoration is obviously impossible, nor could it possibly be desired by any human being, living in a civilised community.

The great change in the status of the worker is alleged to have been brought about by the Mechanical Revolution of the late eighteenth century. Certainly that event produced many changes, though whether the worker was any happier in the age that preceded it, may well be doubted.

[1] P. 103.

It was the extensive scale of the operations of industry in the new era, which created our modern problems. The organisers of the modern industrial system were men quick to realise the meaning of the increased productivity, which large-scale machine production made possible, and they were prepared to make the sacrifices and to take the risks, involved in the assembling of the capital, required for the new methods.

The workers, who crowded into the towns from the country-side, where they had eked out a bare existence, provided no capital and would certainly have been surprised, if anybody had made claims on capital on their behalf, beyond their modest demands for wages. The wages system itself, with its freedom of contract, was regarded by the workers, and rightly so, as a great step forward. It is difficult to realise that, only a hundred years ago, the Settlement Acts still bound a man to the parish, in which he was born.

Let us, however, suppose that the Industrial Revolution might conceivably have taken another form. Suppose a hundred men then engaged in individualist production, each his own master and owner of his own tools. Let these hundred men group themselves together, liquidating their simple capital and with the

proceeds purchasing the new machinery, required for large-scale production, for example, in cotton-spinning. This done, they arrange amongst themselves a division of labour, including management.

They would thus constitute a small factory of the early type, but with capital, management and labour united in the same persons. The joint product is divided amongst them according to some agreed scheme of division. Those modern problems, which are believed to be due to the divorce of capital and labour, could not arise in a world of industry so constituted.

It is one of the claims of copartnership that it will enable us, in so far as it is practicable and by progressive degrees, to create conditions of industry, where capital, management and labour are united in the same people—a condition closely parallel with the picture of "what might have been," which we have rapidly sketched.

The copartnership method, by which this result may be attained, is the payment of copartnership dividends, entirely or partially, in shares in the business, so that, in the course of time, the copartner may acquire no inconsiderable capital holding. The easy acquisition of capital has thus come to be regarded as an essential of a true copartnership.

In actual practice, this part of the copartnership plan is carried out by various means.

In some copartnerships, the dividend is payable in shares only. In others, it is paid half in cash and half in shares. In Taylors' scheme,[1] copartnership dividends must be taken in shares, until the copartner has a holding equal to one year's average earnings; thereafter he may take shares or cash, at his option.

In Lever Bros.' scheme,[2] the copartner has his choice of cash or shares, with considerable inducements in favour of the shares.

In the Procter Gamble scheme,[3] the copartner must show earnest of his intention to become a shareholder-copartner by subscribing for the shares in advance.

In the descriptions of copartnerships, which follow, other variants will be noted. The essential is to ensure a minimum holding of shares by the copartner. In every case where this aim has been neglected, copartnership has fallen short of success. So important is this aim considered, that in some copartnerships the freedom to take cash seems unduly curtailed, as for example, in the South Metropolitan scheme.[4]

[1] P. 143. [2] P. 145. [3] P. 149. [4] P. 138.

The shares, thus allotted to copartners, are sometimes preference shares, bearing fixed interest; more usually, they are ordinary shares, with fixed interest if earned, plus a further sharing in profits, in accordance with the standard method of copartnership. Thus, the shareholder-copartner acquires the full status of ownership—its risks as well as its privileges.

There has arisen, both in this country and in the United States of America, in recent years, another plan, outside copartnership, for associating employees as shareholders, which merits attention.

Under this plan, the employees are offered opportunities to subscribe for shares or stock on advantageous terms. Usually arrangements are made for payment by easy instalments.

Such plans, while they do not answer our definition of copartnership, have similar objectives.

If such a scheme were taken up by employees to a considerable extent—and, assuming no limit placed on the holdings—the employees, in the course of time, might acquire a majority holding of shares, and would thus control the business and receive the major portion of the profits.

Under such circumstances, the application of a copartnership formula for division of the joint product would be scarcely necessary, for both wages and profits would go into the same pockets. The position would, in fact, be that of the hundred men, whom we conceived earlier in this chapter, as throwing into a common pool both their individual labour and their individual capital.

We will now briefly describe some typical share-purchase schemes.

The Bradford Dyers' Association,[1] since 1912, pays a bonus on ordinary shares held by employees, up to a shareholding not in excess of the remuneration of the two preceding years. If the ordinary dividend is under 5%, this bonus is nil; if 5% or over, the bonus is equal to half the rate of the ordinary dividend.

Thus, in 1920 the ordinary dividend was 20%, and employee-shareholders received, in accordance, 30% on their holdings. Employees earning £250 a year or less may register either preference or ordinary shares; other employees, only ordinary shares. The bonus is the same in either case. The shares are bought at market price, and employees may pay for them by instalments.

[1] Dyers, Bradford and district; about 10,000 employees.

At December 31, 1920, 3,600 employees held capital of nominal value £338,000, or over 7% of the total paid-up capital. In the four years to December 31, 1920, £720,342 has been distributed in this and other ways out of profits for employees' benefit.[1]

The United States Steel Corporation,[2] since 1903, advances cash for purchase of common stock to be repaid over three years. Those who hold their stock for five years receive a bonus, in addition to dividend, so long as they remain in the employment of the Corporation, and have "shown a proper interest in its welfare and progress." The nominal value of shares which may be taken up is limited according to a scale, and varies from 5% to 15% of a year's earnings. The bonus is at the rate of $5 per share, and in addition a share from the "jackpot," which receives the bonus of those who have left the employment, or have otherwise forfeited their bonus rights during the year. In some recent years the Corporation offered, in addition to common stock, choice of preferred stock. In 1921, 81,847 employees were included in the scheme. They held 685,735 shares in common

[1] Sir M. S. Sharp, *The Times*, March 1, 1921.

[2] Employees, 211,707; capital, $868,583,600.

stock (subscription price in 1921, \$81) and 163,433 shares in preferred stock. At the present rate of absorption it is estimated that in a few years' time the employees will own and control a majority of the outstanding common stock.

A large number of similar schemes are in operation in the United States.

An ambitious English scheme, which ended in failure, was that announced by the late Lord Furness in October, 1908.[1] It followed a serious strike in the shipbuilding industry. The shares allotted to employees were to be paid for in instalments, by deductions of $2\frac{1}{2}\%$ to 5% weekly from wages. The shares carried guaranteed interest at 4% per annum, and after the ordinary capital had received a cumulative 5%, they were to be entitled to a further dividend, at the same rate as the further dividend, if any, on the ordinary shares.

The scheme was to be managed by a Works Council. It was enacted that "under no consideration shall employees strike against the directions and decisions of their copartners governing the administration of the business." Similarly the company gave up the right of lock-out.

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[1] Irvine's Shipbuilding & Dry Docks Co., Ltd., Hartlepool; employees 1,500-2,000.

On the advice of the trade union leaders, the scheme was given a trial as from March 31, 1909, and a 9% dividend on the employees' shares was paid for the nine months ending December 31. At the end of the year the employees, by a small majority of those who voted, declared against the scheme.

This scheme, which attracted considerable attention, perished because Trade Unionism gave it the cold shoulder. The strike clause was calculated to arouse objections from the trade unions. It is remarkable that they agreed to it even for the trial period.

The London County, Westminster, and Parr's Bank, Ltd., in February 1919, set aside out of profits £140,000 for the purpose of presenting shares to each employee, at the rate of one £1 share for each £20 of annual salary. These shares rank with the ordinary shares for dividend up to a maximum of 12½%. There is no restriction on their sale to outsiders. Similarly, the Guardian Assurance Company, in 1920, issued 50,000 10*s*. shares, ranking with the ordinary shares for dividend, to their staff.

Sir W. G. Armstrong, Whitworth & Co., Ltd.,[1]

[1] Engineers, shipbuilders, etc., Newcastle-on-Tyne; employees in 1920, 27,882.

have a profit-sharing deposit scheme, which has operated since 1878. Deposits, minimum for rank and file 1*s*., maximum £1, may be made weekly. They carry fixed interest at the rate of 4%, and in addition a bonus, which is equal to half the difference between the fixed rate and the dividend payable on the shares of the company (with a maximum of 10%). The rate of bonus for 1920 was 3%, and there was deposited at June 30, 1920, £461,661, distributed over 5,437 depositors.

This scheme is typical of many in existence in this country, especially in the metal trades. The oldest profit-sharing deposit scheme is that of Fox Bros. & Co., woollen manufacturers, Wellington, Som., dating from 1860.

The Industrial Partnership plan of the Dennison Manufacturing Co. (1911)[1] is primarily an arrangement for gradual disposal of interest by existing proprietors, while at the same time securing "the permanency of a successful business."

Profits are shared with a limited number of superior employees, chosen by the directors.[2]

[1] Stationery, printing, etc., Framingham, Mass.; 3,000 employees; authorised capital, $7,000,000.

[2] Sales managers, senior salesmen, department heads, foremen, branch managers, and the like.

The scheme is set out in the articles of association. In addition to first preferred and second preferred stock, there is a special issue of industrial partnership stock. After payment of fixed charges and dividends upon the preferred stock and a dividend, if earned, of not more than 20% on the already outstanding industrial partnership stock, the surplus is invested in the business, new industrial partnership stock being issued against it, and distributed to the participants in proportion to their salaries.

The voting power assigned under this scheme is of special interest, as it indicates how, under copartnership, copartners may gradually assume control of a business.

The founders of the business own the 8% first preferred stock. The industrial partnership stock has full voting power on a basis of equality with the first preferred until one million dollars of it have been issued, when the first preferred stock becomes non-voting and the sole voting power becomes vested in the industrial partnership stock. This has actually taken place, so that the sole control of the business is now in the hands of its principal employees.

It is, however, provided that, if the dividend

on the first preferred stock falls below 8%, this control is lost, and the first preferred stockholders resume the voting power till the dividends due to them have been accumulated. Should this occur for a period of four years, the first preferred stockholders will permanently retain voting control.

If a participant leaves the company, or dies, his stock is exchanged at the company's option either into cash at par, or into second preferred stock of equal face value and carrying no voting power.

The dividend rate upon the industrial partnership stock has averaged, to 1919, $9\frac{1}{2}$%. The shares distributed total $1,528,960, the participants 320.

When the scheme was started, the whole of the capital was in the form of common stock. This was converted into first preferred stock. The industrial partnership stock is gradually created as new capital.

" Our principal employees, then, are a self-governing body, and get the fruits and pay the penalties of their management. The plan makes impossible many of the most insidious dangers of the usual corporate forms, such as absentee ownership and the unearned increment, and has

already borne fruits of loyalty, delight, and devotion beyond our hopes."[1]

Favoured share issues have been initiated by many firms since 1918, and at the present time the method has attained considerable popularity. Recent examples include:

Blaenavon Iron & Coal Co., Ltd. (1919):

Investments by weekly instalments up to maximum of £500, bearing $7\frac{1}{2}\%$ interest and a share in profits.

W. Somers & Co., Halesowen (1919):

Issue of 50,000 10*s*. employees' shares, bearing $6\frac{1}{2}\%$ interest and profit *pro rata* with the ordinary shares.

Selfridge & Co., Ltd., London (1920):

Issue of 100,000 ordinary shares at par, bearing dividend at 2% in excess of declared ordinary dividend, maximum 12%, minimum 6%.

Sir H. W. Trickett, Ltd., Waterfoot (1920):

Issue of 25,000 employees' shares at par, carrying dividend at same rate as ordinary shares, but without voting power.

[1] *Industrial Partnership Plan of Dennison Manufacturing Co.*, Framingham, Mass., 1919.

Amalgamated Cotton Mills Trust (1920):

Investments by weekly collections up to maximum of £200 or more at directors' discretion. Dividend is paid at same rate as on the ordinary shares, a minimum 5% free of tax being guaranteed.

§ 3. Copartner Capitalists

The possibilities in the direction of capital acquisition through copartnership can be best illustrated by working out an example.

In our supposititious case of an undertaking, with capital £500,000 and pay-roll £100,000, the total product, including the pay-roll, being £148,000, let it be assumed that the share of surplus paid to the employee-copartners is in the form of shares in the original undertaking, and sold to the copartners against their share of surplus, at par.

The total share of surplus paid out to copartners on the standard formula and on the above-named earnings would be £11,000 a year.[1]

Take an extreme case, where the pay-roll and the total product are the same as before, but the

[1] See p. 43; for share of surplus on other formulæ, see p. 23.

capital much less, say £250,000—that is to say, a business in which wages are high in proportion to capital employed. On the same reckoning the copartners would receive £26,858 a year.

In the first case they could acquire the whole capital of the business, assuming no limit were set, in less than fifty years; in the second case, in less than ten years. If the method of division were to share surplus equally, the copartners in the second example could acquire the whole capital in about twenty years. In Godin's copartnership the workers acquired the whole of the shares in fifteen years. In Taylors' copartnership more than half of the capital has been acquired by the copartners in twenty-six years.[1]

The creation of a large population of owners of capital is one of the aims of copartnership, thereby completing a process already in operation.

In most modern limited liability companies the total number of shareholders exceeds the number of employees. The rapacious capitalist, to whom so many misdeeds are popularly attributed, in the great majority of instances, is a conglomerate of small investors, hard-working and prudent

[1] For other instances cp. pp. 69, 152, 156, 211.

people, who have made savings, which they have invested in industry. The idle shareholder, for whom the worker toils "to produce dividends," often as not is a faded widow in a backwater, eking out an existence from the interest on past savings.

But there is an important difference between the existing class of small investors and the new class, which copartnership would call into existence to redress the existing inequalities.

The copartner shareholder would have his holding of capital in the business in which he was actually engaged.

In pre-war times it was estimated that there was an average £200 worth of material productive capital existing against every productive worker. Once a worker had acquired this capital under copartnership, he would himself possess his own actual share of the productive capital of the country, invested in concrete objects under his own eye and within his own use.

If we picture the worker continuously operating a particular machine of the value of his share in the national capital—acquired by his own savings through the application of copartnership—he may well be considered as the *de facto* owner of the machine, in the working of which our co-

partner performs his own particular specialised operation of industry.

The advantages which would follow from widespread small ownership of capital through copartnership can scarcely be exaggerated.

The defects of the capitalist system, as we have known it, are these: first, capital has been held in too few hands; second (and therefore), it has tended to give oligarchic power to its possessors.

The last generation has seen an extraordinary dissemination of capital—so that to-day capital is more widely spread than it has ever been since primeval man ranged his world, owner of a few flint weapons and implements.

The concentration of capital, which Marx predicted, has not transpired.

But in another sense Marx's prediction has proved correct. Powerful financial control resides outside the actual ownership of industrial capital. The growth of "high finance" has been a notable feature of the last fifty years.

Whatever the evolution of this economic phase —which is something apart altogether from the use and ownership of capital engaged in productive industry—the creation of widespread ownership of capital amongst the workers of a country must eventually provide the democratic remedy.

In particular, the ownership of surplus-sharing capital by employees will tend to stop exploitation of ordinary shares by financial groups.

But, beyond social results, there is the moral effect on the worker. The human desire to possess and own is perhaps the most deeply ingrained of human instincts.

The denial of the exercise of this instinct, under social systems which sanction and encourage a cleavage between possessing and non-possessing classes, is largely at the root of the present discontent.

There is another important reason why copartnership savings must be ensured, if necessary, by compulsory investment of dividends.

One of the just claims of the existing system is that it has constantly provided the new capital required by an ever-expanding industry.

The accumulation of capital is one of the main material aims of a modern industrial nation. By such accumulation, wisely ordered, productivity is constantly increased and starvation defeated.

" If," says J. M. Keynes,[1] " the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime

[1] *Economic Consequences of the Peace*, p. 16, J. M. Keynes, 1920.

intolerable. But, like bees they saved and accumulated, not less to the advantage of the whole community, because they themselves held narrower ends in prospect . . . the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice."

How far the development of the world along the lines of "greatest happiness for the greatest number" demands, as a Moloch sacrifice, this constant return out of the earnings of industry is a question far beyond our present enquiry.

It is, however, certain that the annual requirements of new capital, both for productive and non-productive purposes, will continue to be large.

In so far as copartnership brings about a more equalised distribution of wealth, the previous sources of new capital will be partially dried up.

The copartnership method, looked on merely as a redistribution of income, ensures, first, that the income does not disappear in the redistribution, and, by its insistence on the holding of capital by copartners—with some degree of

coercion, if necessary—it ensures that the supply of capital will be maintained.

The dividends earned by copartners, when capitalised, either replace existing capital, which is drawn out, or form additional capital for productive use.

The suggestion that the dividends are used for watering the capital is untenable. In no copartnership scheme has this ever been the case.

It may be, however, that the business does not require new capital. It may have reached a steady position with small capital requirements; it may be declining; or, though flourishing, may have lessened requirements of capital, as for example, on falling markets.

Even in this case we incline to the opinion that the copartners' investment should take the form of new shares, against which assets would be created in the shape of gilt-edged securities, forming a reserve fund of a type particularly suited to a copartnership business.

When a copartner has reached a minimum shareholding, the rule of compulsory investment can be relaxed. Thus, in Taylors' scheme, each copartner must retain his dividends in the business till he has a holding equal to a year's

earnings, after which he may take his dividends in cash or shares at option.[1]

Some schemes pay part in cash, part in shares, as a regular feature, and there is much sound common sense in this.

Whether the choice of cash is offered or not, the minimum shareholding should be a *sine qua non.*

The type of share allotted to copartners needs careful consideration. Here, again, the nature of the existing capitalisation is the determining factor.

In at least one scheme of shares by easy purchase,[2] employees are offered their choice of preference shares or ordinary shares.

In a copartnership where the ordinary shares are held by the organisers of the business, it would seem most consistent with the root principles of copartnership to allot to the copartners shares identical with, or analogous in dividend-earning rights to, these holdings. Only in this way is there a true copartnership in ownership amongst the several agents concerned.

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[1] In February, 1921, Messrs. Taylor announced that they would now pay copartnership dividends in cash, since they "cannot at present profitably employ more capital."

[2] Bradford Dyers' Association, p. 64.

If, however, the ordinary shares are not held within the business, but have passed into the hands of the investing public, difficulties at once arise. Assuming the shares to earn dividends above interest rates, they have a market value in excess of par. If issued to the copartner on the market valuation, none of the copartnership advantages of holding ordinary shares would be realisable. Moreover, the copartner would become associated with a continual fluctuation in the market value of his shares, which is an undesirable complication.

This difficulty is best met by creating a special block of shares reserved for copartners.

These copartners' or employees' shares would rank with the ordinary shares. Thus, in Lever Brothers' scheme, the shares issued to copartners carry the same rate of dividend as the ordinary shares, but immediately precede them in priority.[1] In Taylors' scheme the B shares issued to copartners carry the same dividend as the A shares held by the original owner of the business, and, except that they have no voting rights, rank *pari passu* with them.

Where ordinary or quasi-ordinary shares are

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[1] P. 147.

held by copartners in this way, there should be some simple plan for liquidation. Ordinary shares, with special claims on surplus, created in favour of the copartners of one generation, would otherwise become sources of unearned increment in the next.

The usual plan adopted is to arrange that a retiring copartner must offer his shares at par to his fellow copartners or to a trust fund, such as exists in many schemes, and which receives all copartnership dividends and distributes them to the copartners: an excellent arrangement, and one which can be controlled entirely by the copartners themselves. The constant relinquishment of shares by copartners would, of course, tend to reduce the new capital taken up, once the scheme had become established, and might conceivably result in reduction of capital.

Such complete redemption of the shares issued to copartners is not entirely excellent. We have created investors, only to wipe them out of existence after a period. It is a better plan, if possible, to convert copartners' ordinary shares, on redemption, into preference shares, thus retaining the capital in the business, but with relinquishment of ordinary shareholders' rights, and in a form readily liquidated by the usual

methods of sale and transfer, if and when required.

In Lever Brothers' scheme there is an ingenious but simple plan for dealing with this difficulty.[1]

Coming back to the gradual transfer of existing shares to copartners, as in the Godin and Taylor schemes,[2] such schemes present a perfect method of selling out while at the same time maintaining the continuity of the business. The Dennison scheme, as we have seen,[3] was specially created with this object in view. So was Leclaire's.[4] It is quite possible that such transfer to copartners might be an advantageous process for the holders of ordinary shares. The comparatively long period required to effect the complete transfer is a safeguard against any bad bargain of this character.

In the actual copartnerships where owners have transferred their holdings to copartners, they have been founded by men of deep sympathy and strong convictions, ready to make sacrifices in carrying their ideas to their logical conclusions.

Thus, in the Taylor scheme, shares which have

[1] Cp. p. 148. [2] Cp. pp. 114 and 143. [3] P. 68. [4] P. 135.

earned average ordinary dividends of 12% have been transferred to copartners at par. In the case of a business producing a higher rate of dividend, the immediate sacrifice is still greater. Some writers have revealed visions of a grand Samurai-like act of renunciation on the part of the owners of industrial capital. We will do well to steer clear of these impracticable suggestions.

Copartnership is an elastic plan, and it needs must be so, for the variety of enterprises is so great, their circumstances so varying, no cut-and-dried plan could possibly be successful.

The essential, which we must grip, is that the acquisition of capital by copartners should be made as easy as possible, and up to a minimum should be compulsory; such capital to have advantages—and risks—analogous with the capital held by the founders and organisers of the business; and while remaining the absolute property of the copartner, to lose all rights of sharing in surplus on the cessation of the individual copartnership.

Whether the copartners' capital replaces old capital or brings in new, and in the former case how far this replacement may extend, depends entirely on the nature of the business.

§ 4. Proportion of Wages to Capital

It has frequently been made a criticism of copartnership schemes that the relative proportions of wages paid to capital employed vary so much in different industries, that no general copartnership formula is practicable. It has, in fact, been asserted[1] that copartnership methods could only be applicable in industries where wages form a comparatively minor item of cost, and that, in those industries where wages are a major item of the cost of production, copartnership is inapplicable.

Let us therefore examine the methods of copartnership division in the light of this criticism.

We have now four formulæ available for comparison.

The most popular method of division divides the surplus in the proportion of wages to capital. It is obvious that the greater the proportion of wages to capital, the greater the share which the labour copartners will receive.

Godin's formula, dividing surplus in the proportion of wages to interest, has precisely the same result, only it is more accentuated.

The application of the standard formula leads to similar variation.

[1] E.g. by W. L. Hichens, Royal Society of Arts, February 26, 1919.

In considering this enhanced share of surplus accruing to employees when the proportion of wages to capital is increased, we must, however, bear in mind that such increase corresponds to an increase in the number of employees concerned in the business.

Let us suppose that in a copartnership undertaking 500 men are required to carry out the necessary operations, and that an agreed formula for the division allots them an extra 6% on their wages, as an equitable sharing in surplus.

Now let us consider another copartnership enterprise, with the same requirements of material capital, but needing double the human capital, that is, 1,000 men, owing to the nature of the operations. Assume the same degree of activity and success as in the first undertaking, and the same rates of ordinary wages.

Does it not follow as logical that we should expect copartnership division to provide approximately the same percentage addition to wages in the second undertaking as in the first ?

If so, we would need to pay 6% on wages in the second case also—double the amount required in the first case—but this total would be divided over double the number of men and over a doubled pay-roll.

If the total product available for distribution is the same in both cases, the extra allotment can only be at the expense of shareholders' dividends.

The comparison is as follows :

Capital.	Total product.	Total pay-roll.	6% to employees.	Interest and dividend to shareholders.	Total dividend to shareholders.
£500,000	£148,000	£100,000	£6,000	£42,000	8·4%
£500,000	£248,000	£200,000	£12,000	£36,000	7·2%

The position is made still clearer if we think in terms of human capital.

In the case where the material capital requirements of a business are £500,000, and the pay-roll is £100,000, the joint capital employed (following our convention) is £500,000 material capital *plus* £1,500,000 human capital—that is, a nominal total of £2,000,000.

In the extreme case where the pay-roll is equal to the total invested capital, the joint capital employed is £500,000 material or invested capital *plus* £7,500,000 human capital—that is, a nominal total of £8,000,000.

The variation in the proportion between material and human capital in these two extreme cases is considerable, and the proportionate total shares of shareholder and employee will be in accordance.

The variation is reduced by adopting the standard formula, which gives a much more steady division, or it can be avoided altogether, if it is wished to do so, by using the division formula,[1] which gives the same total share of surplus to the employees as a group, whether their number is large or small.

The comparative variation of the division according to the several formulæ, with changing proportions of wages to capital, is shown graphically in the chart on the next page.

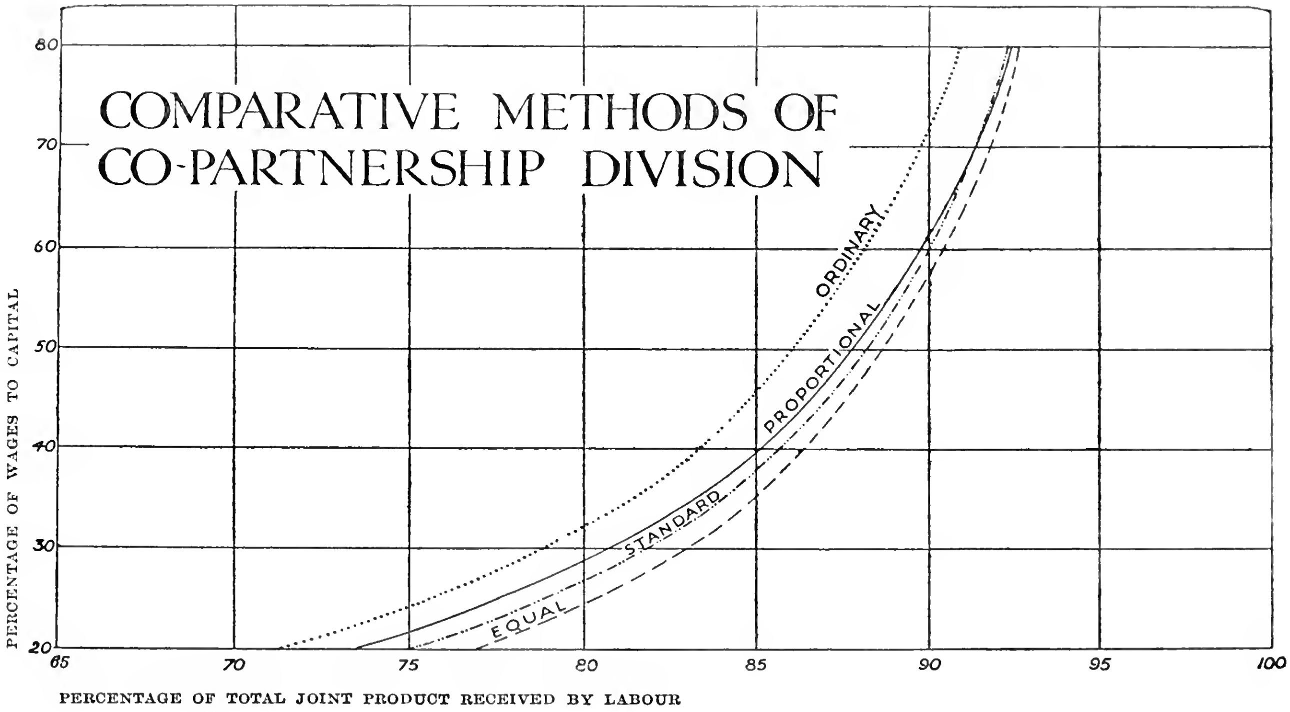
The steadiness of the graph of the standard formula is noteworthy.

The division formula shows a converging curve. This empirical formula has many merits. It is simple and easy to calculate, and it offers in a world of compromise a practical half-way house, which may be found very helpful in the initiation of a copartnership scheme.

Being independent of the valuations, either of capital or pay-roll, it avoids any complications which may arise from the methods of valuation employed.

On the other hand, if the division is half and half, it may give an allotment to labour considerably in excess of the standard formula.

[1] Formula (1), p. 23.


COMPARATIVE METHODS OF
CO-PARTNERSHIP DIVISION
ORDINARY
PROPORTIONAL
STANDARD
EQUAL
80
70
60
50
40
30
20
65
70
75
80
85
90
95
100
PERCENTAGE OF WAGES TO CAPITAL
PERCENTAGE OF TOTAL JOINT PRODUCT RECEIVED BY LABOUR

The working of the division formula is made more elastic, if used with the standard formula as reference. Thus, the formula would become one-quarter of surplus to labour, three-quarters to capital, where pay-roll is 20% of capital; and about one-third to labour, and two-thirds to capital, where pay-roll and capital are equal.

It is as such a check or reference on proposed methods of division that our standard formula will be found of great value. As a formula for practical use, it is probably too cumbrous.

The application of the *proportionate* method of division would reduce the share of capital very considerably where wages are high in proportion to capital. In the case of the £48,000 surplus previously examined, the sharing of labour and capital on this formula works out:

NOTE.—The chart on page 88 is worked out for a business earning 8% overall on capital, on the ordinary or non-copartnership method of division. The curves show the rate of increase in the proportion of the total joint product allotted to employees under each of the methods of division, with increasing proportion of wages to capital. The allotment is made up of ordinary wages plus copartnership dividend. The curves also show, at any given value for proportion of wages to capital, the comparative share of employees under each of the methods of division. The dotted curve, "ordinary division," shows the allotment to employees where no copartnership or profit sharing is in operation.

	Wages.	Capital.	Employees' share of surplus.	Employees' total share of product (wages *plus* surplus).	Shareholders' total share (including "reserved" interest).
(*a*)	£100,000	£500,000	£3,833	£103,833	£44,167 (8·8%)
(*b*)	200,000	500,000	6,570	206,570	41,430 (8·3%)
(*c*)	500,000	500,000	11,500	511,500	36,500 (7·3%)

Thus, business (*c*), with same capital and net surplus, would pay three times as much to labour copartners as business (*a*), apart from the increased total of wages.

Note, however, that if we may assume that there are five times as many employees in (*c*) as in (*a*), corresponding to the larger pay-roll, the extra *individual* earnings are actually reduced. The rate of the copartnership dividend is diminished to precisely the same extent as the rate of the ordinary dividend.

The total pre-war capital, estimated to be engaged in British productive industries, was £1,200 millions. The total pay-roll was estimated at £404 millions.[1] The average proportion of pay-roll to capital is thus about one-third.

The total capital employed in manufacturing industry in the United States in 1914 was $22,800 millions. The pay-roll was $5,366 millions.

Thus, it will be seen that a ratio of 25% repre-

[1] *The Division of the Product of Industry*, p. 52, A. L. Bowley, 1919.

sents the general relation of pay-roll to capital in the United States.[1]

It is rarely, if ever, the case that the pay-roll of a company exceeds its capital.

The Ebbw Vale Company has a wages pay-roll of £4 millions against a capital of £4·7 millions; Guest, Keen, & Nettlefolds, £7·6 millions against a capital of £11·2 millions.

The pre-war figures for the railway companies were: capital £1,341 millions, wages £55 millions.[2] Here, of course, capital has no real relation to assets. The pre-war capital of the coal industry was estimated at £134 millions,[3] the wages at £91 millions, about 70%. Salaries have to be added to these figures; they are rarely more than 15% of wages, often less.[4]

These are typical cases of industries, where the man power employed, in proportion to value of output, is at its highest level.

As an appendix to this chapter, it will be interesting to examine the published accounts of a typical company of the class under dis-

[1] Census of Manufactures, Dept. of Commerce, Bureau of the Census, Washington, 1914.

[2] Sir Hugh Bell, in *Labour and Capital after the War*, p. 180, 1918.

[3] Coal Commission, March 6, 1919.

[4] Census of Production, 1907. The proportion is higher in U.S.A.

cussion, where pay-roll is high in proportion to capital.[1]

The salient figures are as follows :

	£
Capital, including debentures	4,710,000
Turnover	7,600,000
Divisible profit	346,504
Per cent. of profit to turnover	4·56%
Wages	3,904,817
Per cent. of wages to turnover	51%
,, ,, wages to capital	82%
,, ,, turnover to capital	160%
,, ,, profit to capital	7·4%

Now let us apply the standard formula to this business.

We are bound to assume, at the outset, that wages do not contain any element of surplus, and that our conventional method of arriving at the valuation of the human capital will stand good.

The total product (wages and divisible profits) is £4,251,321. We first allot to invested capital simple interest at 5%, £235,500.

Next, to human capital simple interest at the same rate (equivalent to 75% of wages,

[1] Ebbw Vale Steel, Iron & Coal Co., Ltd., *The Times*, June 17, 1920.

£3,904,817), namely,	£2,928,613
The total interest is . .	3,164,113
Leaving a balance of . .	1,087,208

This we divide in the proportion of the invested capital, £4,710,000, to the nominal human capital (15 ×£3,904,817), £58,572,255.

Invested capital receives 7·4% of the balance; the rest goes to employees.

Completing the arithmetic, we get:

	Calculated sharings by standard formula.	Actual sharings.
To shareholders . . .	£315,953	£346,504
To employees . . .	£3,935,368	£3,904,817
	£4,251,321	£4,251,321

According to these figures, the employees should have received a slightly additional earning—less than 1%.

It will be observed that, on any of the other formulæ—whether half and half or share of surplus in proportion of capital to pay-roll—the dividends of the shareholders would have had to be further diminished.

The total divisible profits were 7·4% on the capital. Owners of capital are not likely to be encouraged to invest nearly five millions of money, out of which nearly four millions is paid annually

in wages, if, against their sacrifice, risk, and enterprise they receive an average return much lower than 7·4%. In this typical undertaking it is obvious that, productivity remaining constant, employees are already receiving their full share of the joint product.

The application of any of the formulæ of copartnership other than the standard formula would reduce the earnings of the shareholder below subsistence level. This, as we have endeavoured to show, is the weakness of the usual methods of copartnership sharing. They assume that wages include no surplus: however true this may have been when these formulæ were evolved, it is not true to-day, still less likely to be true in the future.

The special method which has led us to the standard formula eliminates these defects and adjusts the balance whether weighted in favour of the shareholder or of the employee.

To sum up the results of our inquiry, there is no reason to suppose that the operation of a scientific copartnership division will be any less equitable to either party in the case of an industry with a large proportionate pay-roll as against an industry with a small proportionate pay-roll.

The method of analysis which we have followed,

and particularly the conception of human capital, enables us to see clearly the true distinctions amongst these different types of undertakings.

Further, this view is confirmed by practice. The three outstanding examples of copartnership success in this country are Lever Brothers, Ltd., J. T. & J. Taylor, Ltd., and the South Metropolitan Gas Company. The first is a business where labour is a comparatively minor item; in the second it is a fairly large item; in the third it is quite a large item.

CHAPTER III

COPARTNERSHIP PRACTICE

§ 1. Profit-sharing

PROFIT-SHARING is constantly confused with copartnership—indeed, many regard the two as identical. Copartnership has suffered much unfair criticism in consequence, for the two ideas are as the poles apart.

It is easy to see how the confusion between copartnership and profit-sharing has arisen. In discussions of copartnership, altogether undue attention has been paid to the copartnership division. This provokes such cheap comments as Mr. Cole's " specious 5 per cent. for nothing on wages." [1]

Actually, the dividend is the least important part of copartnership. As a mere readjustment of incomes, copartnership has no prizes to offer, and pursued from that standpoint it is likely to lead to disappointment.

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[1] *The World of Labour*, p. 33, G. D. H. Cole, 1917.

It is here precisely that profit-sharing and copartnership follow divergent lines.

In the first place, in an ideal copartnership the method of division will be framed on scientific lines, so as to give the most equitable sharing possible, based on the facts, as laid bare by analysis, and not on sentiment, which has no part in the process; on the other hand, profit-sharing is an empirical method of division, and usually makes no claim whatever to be an equitable sharing out.

Impelled by various motives—as an incentive to increased output, as a stimulus to management, as a sop to the Cerberus of unrest, as an item of welfare work—an employer arranges to give a share of profits to his employees. It may be on a niggardly or on a generous scale—in English profit-sharings it varies from 2% to 50%.[1] It may be determined beforehand or not so determined.

However this may be, profit-sharing carries with it no assumption of partnership, no recognition of equal rights of employees to share with owners of capital in the joint product of industry. The status of employer and employee remains unaltered. The share of profit is an *ex gratia*

[1] Cmd. 544, p. 35.

payment, instead of a sharing between joint partners.

Even though the division under a profit-sharing scheme be as generous and equitable as under a copartnership (and there is nothing in the best profit-sharings to distinguish between the two in this respect) the absence of the partnership idea and ideal separates, once and for all, every profit-sharing from every copartnership.

Beyond this, again, copartnership implies a partnership in capital. This is essential to the wider aims of progressive copartnership, without which it could not possibly make its high claims to improve and restore the status of the employee.

We may even say that copartnership dividends are paid out, not so much to readjust any inequality of earnings, as to provide the worker with the necessary fund, created through his own efforts, co-operatively with all his partners, which enables him to acquire a capital holding in the business.

It is because we regard this aspect of copartnership as of primary importance that we were able to include under the copartnership banner those partial methods in vogue, which involve no copartnership sharing, but on the

other hand, offer opportunities to employees to acquire shareholdings on easy terms.

Profit-sharing methods, then, where the bonus is the beginning and the end, are purely sharing devices, which may or may not approach the complete participation which is the first step towards ideal copartnership.

Some sharings are indeterminate—that is, the method of sharing is not fixed in advance, but is quite arbitrary. The Imperial Tobacco Co. (of Great Britain and Ireland), Ltd., for example, have allocated each year a bonus to employees, based on wages, which is usually announced at the same time as the dividend, but bears no agreed relation to dividends.

Such bonus distributions are the equivalent of extra wages; with certain advantages to employer and employee arising from the method of distribution.

Other sharings are in accordance with methods fixed in advance, and it is best to reserve the term "profit-sharing" for such arrangements.

The International Co-operative Congress, held at Delft in 1897, devoted considerable attention to propounding a comprehensive definition of profit-sharing.

Their definition, as adopted by the Board of Trade, is as follows:

"Profit-sharing is understood to involve an agreement between an employer and his work-people, under which the latter receive, in addition to their wages, a share fixed beforehand, in the profits of the undertaking."

Such profit-sharings constitute at least a starting-point for copartnership, and as such merit our consideration.

The Delft Congress dealt with various details arising from this definition. The share in profits, for example, must be paid in cash and may not be contingent on other payments by workers, as e.g. through a Provident Fund.

By profits is understood "the net balance of gain realised by the financial operations of the undertaking,"[1] the whole undertaking, not departments, being taken for this purpose. Payments by way of bonus, commissions, and the like, which depend on output or sales, irrespective of the profits earned, do not constitute profit-sharing. The payment is in consideration of work done, and altogether apart from interest received on shares held in the business. The

[1] *Methods of Industrial Remuneration*, p. 243, D. F. Schloss, 1898.

inclusion of the term "fixed in advance" rules out all indeterminate sharings or casual bonus distributions. The individual sharings may vary at the employer's discretion, provided that the whole of the employees' share is distributed to employees. If the distribution is confined to a portion of employees only, it does not constitute profit-sharing—at least 75 % should share.[1]

These common-sense rules are, of course, equally applicable to the copartnership sharing, and the methods as regards *distribution* of the fund available, as adopted in progressive profit-sharing schemes, are precisely on all fours with the methods in operation in copartnerships.

In both there is usually a "reserved limit"—the sharing does not commence till capital has received a definite rate of interest, usually 5 or 6 %.

The official report on Profit-sharing and Labour Copartnership in the United Kingdom,[2] tabulates nearly 200 profit-sharing schemes; but the list is by no means exhaustive, and, particularly following the Armistice of 1918, there has been a flood of new schemes.

These schemes are of the most varying character. A typical English plan of the best type is

[1] Delft Congress, loc. cit. See also Cmd. 544, p. 4.

[2] Cmd. 544, 1920.

that of Clarke, Nickolls & Coombs, Ltd.,[1] which was originated in 1890. After payment of debenture interest, preference dividend, and 6% on ordinary capital, the balance of profit remaining is divided equally amongst the ordinary shareholders and the employees.

The payment is made in cash to each employee in the exact proportion of earnings. The shares of employees who have not qualified are carried to a provident and dowry fund (a favourite and excellent device). This fund is now over £80,000.

During the two years preceding the introduction of the scheme the ordinary dividend was at the rate of 10%, so that there was, at the commencement, reasonable certainty of a surplus available for division.

The bonus paid to employees in 1919 and 1920 was £47,000 each year, being 29·9% and 20·4% respectively on wages. The average bonus, during thirty-one years from the commencement, has been 14·6% on wages, and the total amount distributed to employees over the period £368,025.

This is a profit-sharing scheme of the highest

[1] Manufacturing confectioners, Hackney Wick, London, N.E. Employees, 1,000; capital, £195,000. See *Experiments in Profit-sharing and Copartnership, No. 2*, Labour Copartnership Association.

class, needing only the introduction of shareholding to convert it into a copartnership.

The Dennis scheme [1] (1919) is of interest as an application of profit-sharing methods to agriculture. Capital receives $5\frac{1}{2}\%$ or 6%, according as it is land or farm capital, and the surplus is divided, one-third to land-owning capital, one-third to farming and trading capital, one-third to labour.

All workers who have been employed twenty-four working days during the year participate. The bonus is paid in cash in the proportion of earnings. In the event of a loss, it will be carried forward against future profits. In the first year of the scheme £20,000 was distributed.

The British Cyanides Company, Ltd.,[2] propose to distribute at the rate of $2\frac{1}{2}\%$ on the pay-roll for every 1% (free of tax) by which the shareholders' dividend exceeds 6% (free of tax) up to 10%, when the sharing is equal. The bonus is to be paid in cash, in weekly or other regular amounts, in the year succeeding that in which the profits were made.

The Home and Colonial Stores, Ltd.,[3] since 1915, distribute to employees an amount equal to the

[1] W. Dennis & Sons, Ltd., potato-growers, Lincolnshire ; 400–500 employees.

[2] Chemical manufacturers, Oldbury.

[3] Multiple shops ; employees about 4,000.

total dividend paid on the A ordinary shares of the company. The sum distributed has amounted recently to 15% on the wages and salaries of the participants.

The Stroud Brewery Co., Ltd., pay a 2½% bonus on wages and salaries, when a 5% dividend is earned, with an extra 1% for each 1% dividend, in excess of 5%. One half of the bonus remains on deposit, at 5%, and may only be withdrawn, with the consent of the directors, for some "purpose of permanent utility." The other half may be withdrawn at ten days' notice.

A remarkable, but hardly scientific, plan was recently announced by Mr. Austin Hopkinson, M.P.,[1] "as an acknowledgment of the men's work during the war." After payment of interest on capital, the first £1,000 surplus is divided in the proportion of £900 to employer, £100 to employees. The second £1,000 is divided £800 to employer, £200 to employees and so on, the employer's share diminishing till the employees at the tenth £1,000 receive the whole. Thereafter Mr. Hopkinson proposes that the consumer shall become a participant in the surplus.

A form of profit-sharing, which deserves notice, is the issue of "sharing certificates," based on

[1] Mining machinery engineers, Guide Bridge.

service, which do not form part of the capital of the company, but count as nominal capital for sharing of profits. Where these certificates are redeemable in cash, as in the scheme of the Civil Service Supply Association, Ltd.,[1] they constitute a limited copartnership. This scheme is particularly interesting as the first large-scale application of copartnership to a distributive business in this country.

These are typical English schemes, selected mainly for the variety they afford.

American plans are no less varied; profit-sharings seem to invite ingenuity and novelty in their creation.

The Solvay Process Co.[2] make bonus payments in accordance with a graduated schedule, which takes into account both quality of work and length of service, with a special scheme for the higher ranks, who are similarly graded. The amount distributed is not determined beforehand.

The Jacob Dodd Packing Company, Buffalo, retain the first \$100,000 profits, thereafter dividing 10%–12½% amongst the employees.

Sears, Roebuck & Co., the department stores of Chicago, set aside 5% of the total net earnings,

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[1] *The Times*, March 2, 1921.

[2] Chemical manufacturers, Solvay, N.Y.

which is distributed to employees by an unusual method. Any employee of three years' service is eligible to participate on depositing 5% of his annual salary. The bonus is distributed to the employees in the proportion which the amount deposited by each employee bears to the total amount deposited by all employees. It is estimated that an employee earning $20 a week may thus accumulate $10,000 dollars in thirty years, his own contributions being $1,560.

The Eastman Kodak Co.[1] share surplus in excess of 10% on common stock, in the proportion of 35% to employees and 65% to stock-holders. The employee's dividend is reckoned on the average of his wages over the preceding five years (if the service is less than five years, the basis is proportionally reduced by this method).

The famous Ford plan of wages payment comes within the category of profit-sharing, since the bonus, when it was first introduced, was estimated as equivalent to 50% of the profits of the preceding year, and it is understood that the rate of bonus is intended to vary with profits from year to year. There is strict grading of

[1] Photographic apparatus, Rochester, N.Y., over 7,000 employees. In 1918, the company, in addition, inaugurated a scheme to enable employees to take up common stock at par.

employees and a most searching investigation preceding, and even during, employment. The lowest paid employee receives the highest bonus. Thus, the 34 cents per hour man received in 1916 28½ cents per hour bonus (making up 5 dollars a day), while the highest paid, 86 cents per hour man, received only 7¾ cents (making up 7½ dollars a day). Profits and wages are thus in inverse ratio.

An American method of partial profit-sharing largely in vogue, and recently adopted to some extent in this country, is the provision of group life insurance for employees.[1]

The *patrimoine*, which is an accumulation of the employee's bonus to provide capital for an annuity, is a similar method, much favoured in France.

§ 2. Gain-sharing

The profit-sharing plans which we have described are remarkable for their diversity. At one extreme they are elementary copartnerships, at the other mere bonus on wages, seeking their justification in the "economy of high wages."

Thus profit-sharing merges imperceptibly into

[1] Detailed accounts of American profit-sharing schemes will be found in *Profit-sharing: Its Principles and Practice*, A. W. Burritt & others, New York, 1918; *Profit-sharing in the United States*, U.S. Bureau of Labour Statistics, 1917; also Cmd. 7283, pp. 82–106, 1914.

gain-sharing—the system of payment by results to individuals or small groups.

Where a profit-sharing is a real distribution of profits earned by the business, the co-operative endeavour of employees, linked under such a system, can be relied upon to produce a higher standard of efficiency and output. Where a profit-sharing is simply a bonus on wages, the tendency should be to attract and to retain a superior type of worker, and to improve the "labour turnover."

These results are the utmost which can be expected of profit-sharing schemes. They cannot satisfy those higher aspirations with which copartnership is specially concerned. Nor, on the other hand, as merely extended wages, do they bring any noticeable increase in productivity.

In the majority of profit-sharings better results for both employer and employee would be obtained by the substitution of carefully developed gain-sharing methods.

Gain-sharing is essentially based on individual output. Salesmen are usually remunerated wholly or partly by a commission on the value of the sales. Sometimes this commission is on the gross profit. The latter method is largely adopted in department and chain stores, but

we must not be misled by this use of the term "profits" to regard such methods as true profit-sharings.

In manual work many methods of gain-sharing are in operation. Of these the piece-wage has existed alongside the time-wage for several generations.

Piece rates are rates of payment per unit of output, usually worked out to give an average worker, on the sustained effort, about 25% above time rates, and to provide about 33⅓% above time rates for exceptional skill. A piece rate should be (but is not always) accompanied by a guaranteed minimum payment equivalent to the time rate.

Alterations of piece rates should be made in conjunction with trade unions, who have yet to develop this part of their legitimate activities.

Bonus rates are similar payments, over and above time rates.

Both piece and bonus rates may include a sliding scale for output beyond certain standards.

Both piece and bonus rates can be made collective, the total earnings of a group or gang being shared out. This method is necessary when team work is done, each member of the team contributing his share to the complete operation.

Differential rates, particularly associated with "scientific management," offer exceptionally large incentives for output in excess of fixed standards. As output increases, the rate per unit of output is also increased. Task with bonus, invented by H. L. Gantt, is of the same type. Under this method the normal time rate is guaranteed, and in addition, if the task assigned is completed, a substantial bonus is added, up to 100%.

Time-saved rates are in considerable vogue in engineering works. A standard time is fixed for each operation. If the work is completed in less than standard time, the worker is paid for an agreed percentage, usually 50% or 33⅓% of the time saved.[1] (Under a piece rate, on the other hand, the worker receives the equivalent of the whole of the time saved.)

Reference rates are of the same order. A rate is fixed for the job. If the work is completed in such a time that the earnings at time rate work out less than the reference rate, the worker is paid 50% of the saving.

The Rowan Premium System (1901) consists in increasing the rate of pay per unit of time taken over the job in the proportion of the

[1] Halsey Premium System (1891).

reduction in the time taken to complete the operation.

The Emerson Efficiency Bonus method fixes a "100% efficiency" standard, for attainment of which a bonus, usually 20%, is added to time wages. For attainments short of the 100% a graduated bonus is paid. This method is particularly adaptable to workers on sundry operations of a kind not easily measurable.[1]

The Priestman System, which has been prominent lately, consists in payment of bonus based on total production of the whole shop, and not on individual processes or individual jobs. A standard collective output is fixed in the first place. If, without adding to the number of men employed or the hours worked, the output is increased by greater individual effort, the day rate wage is supplemented by a percentage equivalent to that by which the actual output exceeds the standard.

Considerable claims to increase production have been made for this system. The essentials of the scheme are, first, the whole advantage equivalent to saving of time is given to the

[1] For comparative charts illustrating the working of these systems see *Factory Management Wastes*, James F. Whiteford, Nisbet & Co., Ltd., Second Impression, 1921, Appendix.

employee; second, the sharing is collective, and the sustained effort needs therefore to be co-operative.

Gain-sharing methods are justified as a means of evoking and rewarding individual excellence and merit in the performance of assigned tasks. They provide a stimulus quite different from copartnership, which rests essentially on mutual co-operation. Copartnership aims to create, in each business practising it, a self-contained, small-scale industrial democracy, where each is for all and all for each.

But within such copartnership groupings there must exist great individual differentiation. Thus, gain-sharing is applicable within a copartnership business, as it is within an ordinary business.

The pool of surplus is the final gathering of all the accumulated gains of the year's work of the business. Back of it are all the tiny pools and springs which feed it. The net volume these contribute to the pool is largely dependent on the efforts and initiative of individuals.

Again, the reward of copartnership endeavour is remote; in gain-sharing methods, on the other hand, it is near and tangible.

The ideal copartnership might possibly not require these incentives, but we are far from that

ideal to-day. Copartnership has to deal with no transfigured worker, but with Jones, Smith and Robinson, as we know them to-day.

There is, then, nothing inconsistent with copartnership in the adoption of methods of payment by results such as we have described.

In all the existing copartnerships applied to ordinary businesses these methods are in actual operation.[1]

The trade union objections to payment by results, in so far as they are real objections, appear to be based on the ground that the whole reduction of production cost arising from the application of bonus methods should go to the worker, whereas this is not actually the case.[2]

It would be easy to prove that little, if any, of the saving goes to swell profits; but, even if it were necessary to grant that this is so, under copartnership the objection could not be sustained, since any savings that might accrue to the business flow back to the worker in his capacity as copartner.

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[1] In Thomson's scheme, Huddersfield, which is practically a co-operative concern, piece rates have been abolished.

[2] For other objections see *The Payment of Wages*, p. 19, G. D. H. Cole, 1918. See *World of Labour*, p. 321, for the premium bonus system as a "method of getting ninepence for fourpence extra." Cutting of rates and undue speeding up are *abuses*, not essentials, of gain-sharing.

§ 3. Model Copartnerships

(1) *Godin.*

The Godin scheme, established in 1880 at Guise in Northern France, near the Belgian border, constitutes the classical case of co-partnership practice.

Jean-Baptiste André Godin was a blacksmith's son, born in the department of Aisne, January 26, 1817. He died, January 15, 1888.

As a young working smith, toiling from 5 a.m. to 8 p.m., he made a vow: "If ever I lift myself above the condition of the workman, I will seek means to render his life happier and to lift labour from its degradation."[1]

At the age of twenty-three he commenced business for himself, manufacturing heating stoves, in connection with which he made numerous improvements and inventions. By continuous energy and enterprise he built up at Guise a large and well-equipped business, employing, at the time of his death, more than 1,500 workers.

The firm, as to-day constituted, was founded in 1880, under the title "Société du Familistère de Guise: Association Coopérative du Capital et du

[1] *Solutions Sociales*, p. 14, J–B. A. Godin.

Travail (Godin et Cie)." It is incorporated as a *société en simple commandite*—a type of undertaking peculiar to France, in which the liability of the head of the firm, whose name is included in its title, is unlimited, that of the other members being limited to their capital.

Every person employed in the business is a member of the Association, and takes his proper place in an elaborate constitution (see table on page 117).[1]

The initial capital of the Society was £184,000, entirely owned by the founder.

The method of appropriation of the gross profits is as follows :

(*a*) 5% on fixed plant, 10% on tools, and 15% on models is carried to depreciation account.

(*b*) A sum equivalent to 3% on wages is carried to a mutual insurance fund.

(*c*) About 1½% on wages is carried to a sickness and accident fund.

(*d*) About 1½% on wages is carried to an educational fund.

(*e*) Interest at 5% per annum is allocated to capital.

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[1] Expanded in detail in Godin's *Mutualité Sociale.* The Articles of Association are reprinted in *Report on Profit-sharing and Labour Copartnership Abroad*, Board of Trade, 1914 (Cmd. 7283), pp. 127–31.

(*f*) The balance remaining is divided :

Net Surplus

25% to Ability

25% to Reserve Fund

50% to Capital and Labour

The Articles of Association provide that when the reserve fund reaches 10% of the capital, and so long as this amount is maintained, the 25% allocated to reserve may be added to the portion allotted to capital and labour, which thus becomes 75%.

In the portion allotted to capital and labour "the share of labour is represented by the total amount of wages and salaries received during the year, and the share of capital by the total interest on founder's and savings shares. . . . The dividend on capital is payable in cash, that of labour in savings share certificates." [1]

These "savings shares" (*titres d'épargne*) carry precisely the same rights as the original "founder's shares." The allotment of these shares does not, however, involve creation of new capital. As the copartners acquired savings shares, Godin withdrew an equal amount of his founder's shares, receiving the equivalent in cash; thus, in effect, he sold the shares at par

[1] Articles of Association, Art. 128.

CONSTITUTION OF THE GODIN SCHEME

The Association

- Retired members — INTERESSÉS
  - Share-holders only
- First class members — ASSOCIÉS
  - Employees of five years' service. Receive two shares in surplus.
- Second class members — SOCIETAIRES
  - Employees of three years' service. Receive 1½ shares.
- Third class members — PARTICIPANTS
  - Employees of one year's service. Receive one share.
- Fourth class members — AUXILIAIRES
  - Employees in casual service. Receive benefits from insurance fund but no share in surplus.

General Assembly

- SUPERVISORY COMMITTEE
  - MANAGING DIRECTOR (Administrateur-Gérant)
  - JOINT CONTROL
  - THE COUNCIL OF MANAGEMENT (Conseil de Gérance) (Heads of depts. and three representatives of the working members) elected annually. Maximum number of members sixteen.
    - Industrial Council (Conseil de l'Industrie).
    - Council of the Familistère.
- CONCILIATION COMMITTEE

Note.—In 1912 the membership was:

First class	426
Second class	66
Third class	1,188
	2,280
Fourth class	926
Retired	487
	3,693

to the employee-copartners, against the cash allocated to them as their share of surplus.

The method of distribution will be made perfectly clear by an actual example.[1]

Appropriation Account, 1909–10

	Francs.	Francs.
Capital		5,750,000
Total profit after deducting depreciation and cost of education . .		1,210,508
Deduct : 3% on wages to Mutual Insurance Fund	111,000	
1½% on wages to Sickness and Accident Fund	55,500	
5% interest to capital . . .	287,500	454,000
Total net profit		756,508
Deduct : Amount required to maintain reserve at 575,000 francs . .	36,223	
25% of net profit to ability . .	189,127	225,350
Balance of net profit available for capital and labour		531,158

The balance of net profit thus available is equivalent to 70·25% (the normal percentage being 50, the maximum 75, as above explained).[2] This sum is divided amongst the copartners in the following way.

[1] Cmd. 7283, p. 9. [2] P. 116.

The proportion which each copartner receives is arrived at by assigning two shares to each first-class member, one and a half shares to each second-class member, one share to each third-class member. Thus:

Members.	Shares per member.	Wages.	Weighted share.
		Francs.	Francs.
First class .	2	799,343	1,598,686
Second class .	$1\frac{1}{2}$	368,700	553,050
Third class .	1	1,785,657	1,785,657
Fourth class .	Non-recipient, but wages included in total for calculation	746,312	746,312
Total wages		3,700,012	4,683,705
Add fixed interest on capital			287,500
Weighted total			4,971,205

This total gives us a value for working out the correct proportion between labour and capital.

The balance of net profit (531,158 francs) is divided between capital and labour, in the proportion between the fixed interest paid on capital (287,500 francs) and the weighted pay-roll total (4,683,705 francs).

Thus:

	Francs.
Capital receives, additional . . .	30,705
Labour receives, additional . . .	500,453
	531,158

The exact sharing amongst the different grades is readily calculated.

531,158 francs represents 10·68% of 4,971,205 francs, the weighted total.

The overall copartnership dividend is, therefore, 10·68% on the basis values as above weighted.

	Basis.	Share.	Per cent. on wages.	Equivalent to, say, weeks' wages.
	Francs.	Francs.		
Shareholders .	287,500	30,705	—	—
First class .	1,598,686	170,740	21·36	11
Second class .	553,050	59,066	16·02	8½
Third class .	1,785,657	190,710	10·68	5½
Fourth class .	746,312	79,937	—	—
	4,971,205	531,158		

The share to the fourth class (*auxiliaires*, casual workers, workers of less than one year's standing, workers below the age limit of twenty-five years) though allotted, is not paid to these members, but is carried to a special fund, "reserved savings," where it is held on their behalf, if at a later date they qualify for participating membership. Any balance not so used is transferred to the Mutual Insurance Fund.

Collecting the different allocations together:

	Francs.	
(*a*) Indirectly allotted to labour:		
Mutual Insurance Fund .	111,000	
Sickness and Accident Fund	55,500	
Fourth class . . .	79,937	
(*b*) Directly allotted:		
First, second, and third class		% on wages,
members' share of surplus.	420,516	18
	666,953	
(*c*) In addition to wages . .	3,700,012	
	4,366,965	
(*d*) Allotted to capital:		% on capital,
Share of surplus . .	30,705	0·53
(*e*) In addition to fixed interest	287,500	5
	318,205	5·53

The total profit available for capital, on ordinary methods of distribution (but without providing for pensions, sickness, accidents, etc.), was 1,210,508 francs, equivalent to a 21% dividend overall.

There are reasons for thinking the nominal capital did not fully represent the true value, in which case the real dividend earned on the capital would be at a lower overall rate.

Where capital is undervalued, the employee copartners benefit at the expense of the shareholder copartners. This would appear to be the case in the Godin scheme. Apart from this, the

share of surplus allotted to capital is extremely small, and this, of course, follows from the method of division, the surplus being divided in the proportion of interest to wages, instead of capital to wages, a more usual method. This excessive payment to labour is accentuated by the grading whereby first class members receive double shares, and second class $1\frac{1}{2}$ shares, thus considerably inflating the amount allotted to wages. In our development of the theory of copartnership we gave reasons for regarding the Godin method of distribution as ill balanced, and it will be interesting at this point to compare the distribution of the product in the above detailed example, following our standard formula.[1]

The total net product is:

	Francs.
Total profit after deducting depreciation	1,210,508
Pay-roll.	3,700,012
	4,910,520

The total capital employed is:

	Francs.
Material capital	5,750,000
Human capital,[2] 3,700,012 × 15 . .	55,500,180
	61,250,180

We allot 5% to material capital (interest) .	287,500
5% to human capital (wages) .	2,775,009
	3,062,509
There remains a balance of . . .	1,848,011

[1] See p. 41. [2] See p. 39.

This balance we allot in the proportion of human capital to material capital, 90·6% to the former, 9·4% to the latter.

Thus we get the final allocation:

	Francs.	
Material capital, interest . . .	287,500	
profit . . .	173,713	
	461,213	(8·02%)
As compared with Godin's allocation to material capital . . .	318,205	(5·53%)
Human capital, interest . . .	2,775,009	
profit . . .	1,674,298	
	4,449,307	
As compared with Godin's allocation to human capital[1] . . .	4,556,092	

Or, if we deduct pay-roll from both totals, we have:

	Francs.
Standard formula . . .	749,295
Godin formula	856,080

Under the standard formula, our allocation to human capital includes the share of both rank and file and management, without any attempt to fix the relative proportions, whereas the Godin total, 856,080 francs, includes 189,127 francs

	Francs.
[1] Made up labour's direct and indirect share (p. 121)	4,366,965
25% to ability (p. 118)	189,127
Total	4,556,092

To balance with the appropriation account, p. 118, there must be included the 36,223 francs transferred to reserve.

definitely earmarked to ability, i.e. management, in addition to its ordinary sharing.

Note also that we have included in the Godin allotment funds devoted to welfare, which in other businesses may have been the subject of reservations out of revenue, prior to the copartnership division.

The allotment to " ability " represents Godin's device for securing a management succession in the business after his death.

All members of the management receive their copartnership dividends as employees, in the sharing out to capital and labour.

In addition, 25% of the surplus is allotted to " ability." Of this 4% goes to the managing director as additional remuneration.

To the Council of Management is allotted 1% per member, up to 16%.

Thus, management receives 20% of the total net profits as additional remuneration over and above the ordinary sharing.

The remaining 5% is made up :

	Per cent.
To Supervisory Committee . . .	2
To employees " who have distinguished themselves by exceptional services " (i.e. by inventions, suggestions, improvements)	2
For certain educational purposes . .	1
	5

The appropriations to ability, as to labour, are paid in savings share certificates, except those for educational purposes.

The Managing Director is in supreme control. The Council of Management, of which he is chairman, is the equivalent of a board of directors. It includes three representatives of the rank and file, chosen from the *associés*—the highest grade employees of at least five years' standing.

The Managing Director is elected for life by the General Assembly, who may dismiss him, if he violates the constitution, or is privately interested in its transactions, or involves it in losses over £2,000 against the advice of the Council of Management and the General Assembly.

The Supervisory Committee act as auditors for the copartners and submit the accounts to the General Council.

Considerable portions of the surplus, it will have been observed, are allotted to insurance funds.

The Pensions and Necessities Fund receives the share allotted in respect of the earnings of the fourth class of worker, the *auxiliaires*, who are not members of the Society. In addition, as we

have seen, it receives a subvention equal to 3% on the pay-roll.

Out of this fund pensions at about half-pay are paid to retired workers. In addition it gives a subsistence grant to workers whose earnings are insufficient to maintain their families, or where sickness enters the home. This grant is available of right to any member of Class 1 and 2 and their families, and, in the discretion of the Council of Management, to Class 3, the pre-war scale being 2*s*. a day for adults.

In the same way the Sickness and Accident Fund receives 1½% on wages out of profits, the workers contributing a like amount. All the classes share in the benefits. The sick pay is in proportion to the members' wages, but must not exceed two-thirds thereof. The associated medical fund provides free medical attendance and medicines.

Godin may claim to be the only begetter of the ingenious device for transfer of capital, which has been adopted in other copartnership schemes and offers a perfect method.

By this method, over a succession of years, the copartners' shares are gradually increasing ; while the founders' shares gradually diminish and are liquidated.

On an average of £13,000 to £14,000, allotted

yearly as the copartners' share, the original unimproved value of £184,000 would be wiped out in thirteen to fourteen years, and the founder would then have received back the whole of his original capital in cash.

This result was actually achieved in the Godin business. At the end of the financial year 1894–5, only a few years after Godin's death, all the original founder's shares had been exchanged against savings shares. Thus, within fifteen years, the employees had become owners of the business—a wonderful achievement.

Nobody seems to have been so much surprised as the employees themselves, many of whom, we are told, regarded the scheme as an hallucination up to the end.[1]

Godin's clear-sighted policy is again displayed in the arrangements he made for dealing with the savings shares, after the original founder's shares had been wiped out.

The copartnership dividend continues to be paid in savings shares, but the cash set free, instead of being used to purchase the equivalent founder's shares as previously, is now applied to liquidate existing savings shares, beginning with

[1] *Copartnership in Industry*, p. 57, C. R. Fay, 1913.

the oldest shares and continuing in order of date.

Thus the old copartners are being gradually paid out in cash, in the same way as the founder was paid out, and it is obvious that this process, which at once gradually extinguishes their holding and enables them to accumulate a cash fund, available for old age and retirement, will tend to coincide with the period when the worker is contemplating the end of his active work.

The arrangement just described would serve to maintain a constant fund of capital in the business, but makes no provision for new capital. Godin dealt with this contingency in the following way.

"If the Managing Director, after consultation with the Council of Management, considers an increase of capital to be necessary, the capital may, when the time comes for the distribution of profits each year, be increased by the amount of the profit-sharing bonuses and dividends allotted to various members of the Association in the form of savings certificates."[1]

Under these circumstances, of course, existing savings shares would not be repurchased.

Another provision, which in one form or an-

[1] Art. 42.

other, is necessary in all copartnerships, prohibits the transfer of shares to third parties, not connected with the company, though apparently, by arrangement with the Council of Management, such transfers may be permitted in special cases. Thus it is possible for savings shares to be held by persons outside the business. In their turn, however, these are redeemed, so that such outside ownership must be of a temporary nature. Indeed, it is provided that their repurchase shall be prior to repurchase of shares from members. Shares, held by other than first class members, possess no rights whatever, except to receive dividends.

If a worker is expelled, he loses all privileges but retains his shares. The Association, however, expressly reserves the right to buy back any shares at par.[1]

It is impossible to leave the subject of the Godin copartnership without reference to the social schemes, for which the great reformer is no less famous.

These schemes actually preceded the copartnership. In 1859, Godin commenced to build, in close proximity to the factory, the well-known Familistère, which, by the time the

[1] Art. 33.

copartnership was founded (1880), had become a large and complete model village.

It is outside our present scope to describe this pioneer welfare scheme. The Familistère itself consists of " united dwellings " (flats), let at low rentals to the workers and their families, about one-third of whom (a population of 1,800) can be thus accommodated. A group of co-operative shops provides for the necessities of this little town, and through them circulates more than one-third of the wages paid at the factory.

An excellent educational system, commencing at the crèche, was also provided ; as well as amenities in the form of parks, gardens, wash-houses, swimming-baths, library, theatre.[1] The model village was built by Godin out of his own private means and bequeathed by him at his death to the Association.

Residence in the Familistère was regarded by Godin as a valuable feature in his complete plan for " offering the workman the equivalents of riches."

In addition to the qualifications already mentioned, the first and second class members (who

[1] For detailed pictorial description, see *Twenty-eight Years of Copartnership at Guise*, translated by Aneurin Williams, 1908, Labour Copartnership Association.

receive extra shares, it will be remembered, in the division of surplus) must reside in the Familistère. Such residence is not compulsory in the other classes, nor would it appear to be possible owing to the limitations of available dwellings.

Godin's excellent idea of grading, with constant progress from one class to the other, under the incentive of the privileges accorded the first-class members (sole right to share in control, double share in surplus) would appear in the process of time to have been partially nullified by the residence qualification. Its original object is clear enough. "At the foundation of the Familistère . . . the personnel of the foundry were for the most part sceptical of, or indifferent to, the ideal which Godin set before them as a body. The workers who came to live with him, placing themselves and their families under his direct influence,[1] were those who believed in him and accepted the idea of preparing themselves for the coming Association. Hence the privileges accorded to the residents in the Familistère."[2]

The Godin business maintained a steady progress up to the Great War—thirty-four years.

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[1] Godin himself lived in the Familistère amongst his people.

[2] Madame Prudhommeaux-Dallet in *Copartnership in Industry*, p. 140, C. R. Fay.

The annual surplus averaged, over the first thirty years, about 400,000 francs, which was also the surplus in the first year of the scheme.

The business expanded considerably—employees more than trebled, and turnover more than doubled; the working capital was also increased. Wages rates increased by $33\frac{1}{3}\%$.

The following years showed a considerable increase in the prosperity of the business, as indicated in the following comparison:

	1909–10.	1911–12.	1912–13.
	Francs.	Francs.	Francs.
Capital	5,750,000	6,051,042	6,293,784
Total net surplus	756,508	926,261	973,590
Pay-roll	3,700,012	3,685,454	3,729,964
Available surplus	531,158	623,709	658,901
Participation:	%	%	%
Third class	10·68	8·90	9·34
Second class	16·02	13·35	14·0
First class	21·36	17·80	18·68
Total dividend to capital	5·53	5·445	5·46

Then came the tragedy of 1914. The year 1913 was the most prosperous the Society had ever known. The year 1914 bid fair to outstrip it. The inventory was taken as usual on June 30, but the accounts for 1914 have never been completed. They were destroyed by the Germans, who occupied the left wing of the principal group of the Familistère, on August 28, 1914. The

works and other buildings were taken over by the enemy. In January, 1917, 140 families were deported from the Familistère, which was damaged by fire and explosion. A further and final deportation took place in 1918. During the fighting of October, 1918, considerable damage was done. The famous crèche was destroyed under the bombardment. The bridges were blown up by the Germans. When possession was resumed at the Armistice, the evidences of destruction were heartbreaking. Machinery had been destroyed or taken to Germany, the buildings broken down, the models, collected over fifty years, destroyed or stolen. The tale of destruction applied both to the works and the buildings of the Familistère.

The reconstruction, since the Armistice, is a splendid piece of work, and magnificent testimony to the eternal spirit of copartnership. On August 16, 1919, eight months after the Armistice and five years after the German occupation, the Society, "animated with the determined will to recover as quickly as possible,"[1] was in a position to light a new foundry, the Victory Forge, and to recommence manufacture. At the begin-

[1] M. Colin, Administrateur-Gérant, to whose courtesy this post-war history is due.

ning of 1921, three sets of foundries were in action, the bridges had been rebuilt, 1,200 workmen were in employment, the Familistère largely reconstructed, and the little children back in the schools, which Godin had built for them, scarcely dreaming of the perils in store.

For the year 1919–20, turnover was 7,921,618 francs; pay-roll, 4,283,704 francs. The capital has been increased to 7,398,150 francs. The insurance and other funds are in full swing, somewhat depleted, but with every sign of renewed vigour.[1]

The damage done by the Germans is estimated at 12,474,059 francs in pre-war values. So far, restorations valued at 10,000,000 francs present-day values have been made by the French Government. The State alone can repair such destruction of capital, and all will agree that the first charge on reparations must be the reconstruction of industry, wantonly destroyed by a brutal invader.

Faced with destruction at the enemy's hands, the historic copartnership of Godin has emerged, resolute and determined to maintain its success. Its rehabilitation is no mean triumph for the great principle of copartnership.

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[1] Capital received for 1919–20, 6%; copartners, 20% to 40% on wages, according to their class.

(2) *Leclaire.*

This well-known scheme had its beginnings, as far back as 1838. Edme-Jean Leclaire, its founder, was a shoemaker's son, born May 15, 1801, died 1872.

He set up in business as a house-painter in Paris in 1827, and achieved considerable success. As with Godin, it was his experiences as a workman which led to his plans for improvement of the workers' lot. "It has been the dream of my life," he declared, "that a workman and his wife should, in their old age, have the wherewithal to live in peace, without being a burden to anyone."

In pursuit of this aim, he founded his Mutual Aid Society, which, step by step, developed into the complete copartnership which, after eighty years, still remains in existence.[1]

In 1863 he turned his business into a *société en commandite*, the partners being himself and the Mutual Aid Society. At first limited to certain workers, six years later, the sharing in profits was extended to all.

The method of distribution is as follows:

[1] Brugniot, Laurent et Cie, ancienne maison Leclaire, Paris; house-painting, decoration, and fitting; employees about 1,400; nominal capital, 1,000,000 francs.

after payment of interest at the rate of 5% per annum on the capital, the surplus is divided:

15%	35%	50%
to the two managing partners	to the Mutual Aid Society	to the employees in exact proportion to their earnings

The employees' share is paid in cash. The Mutual Aid Society, out of the funds it receives as copartner (namely, interest on its capital holding, 62½% of the whole, and its share, 35%, of the surplus) provides sick pay, medical attendance, maternity benefit, free life insurance, funeral benefit. In addition, it pays retiring pensions and pensions to widows and orphans.

Membership of the Mutual Aid is limited to the Noyau, or Nucleus, comprising the management and picked workers, about one in ten of the employees, similar to the first-class members of the Godin scheme. As in Godin's scheme, this little republic has a constitution working through a General Assembly of its members.

The General Assembly elects

Conseil de Famille administering the Mutual Aid Society (Société de Prevoyance et de Secours mutuels)	Comité de Conciliation → New members of the Noyau	Auditors	Foremen, also the managing partners

Appropriation Account, 1920

	Francs.
Nominal capital	1,000,000[1]
Total net surplus after payment of 5% interest to capital	880,368
Divided :	
15% to managing partners . . .	132,055
35% to Mutual Aid Society . . .	308,129
50% to employees participating (1119)	440,184
	880,368
Pay-roll	3,329,596
Dividend on pay-roll .	13·22%[2]

The Leclaire scheme is a particular type of copartnership. Instead of a constantly changing group of copartner shareholders, the equivalent of the copartners' shares is held by a trust, namely, the Mutual Aid Society. The profits, allocated to the copartners through this trust, are reserved for a special purpose, namely, sick benefits and the like; but a further sharing in the profits, in cash, not in shares, is allocated to each employee in addition. The total sum distributed to 1920 (including contributions to the Mutual Aid Society) was over 14,000,000 francs.

[1] In addition, part of the accumulated funds of the Mutual Aid Society (4,833,693 frs. in 1920) are available as working capital.

[2] Up to 1914, the dividends averaged about 17½% on pay-roll.

As the figures for 1920 indicate, the business has passed successfully through the difficulties of the war period.

(3) *The Gas Companies.*

To Sir George Livesey belongs the honour of inaugurating, in Great Britain, the first practical industrial copartnership (1889). The scheme of the South Metropolitan Gas Company, then created, has been followed by some thirty-eight other companies, including the Gas, Light, and Coke Co., London, the largest gas company in the world. More than half the capital employed in the British gas industry is actually on a copartnership basis. Some 25,000 employees share in the benefits.

The inauguration of the South Metropolitan scheme was scarcely propitious, for it was followed by a serious strike.

According to Dr. C. Carpenter,[1] the strike arose from a trade union demand to abolish the scheme or to remove all the workers, who hadsigned the copartnership agreement. The strike lasted

[1] *Industrial Partnership* (pamphlet), p. 12, 1914, Copartnership Publishers, Ltd. See also *Report on Profit-sharing and Labour Copartnership in U.K.*, p. 49, Ministry of Labour, 1920, Cmd. 544.

from December 12, 1889, to February 4, 1890, and ended in the failure of the union.

Following the strike, the agreement signed by each employee was revised, and each worker had to declare that he was not a member of the Gas Workers' Union. It must be borne in mind that this union was then a recent formation, and that a strike was impending when the copartnership was inaugurated.

This stipulation remained for several years, but all restrictions on membership of this union have long since been withdrawn. The impression created, that the South Metropolitan Copartnership was a subtle device to defeat trade unionism may be partly responsible for trade union suspicion of copartnership in this country.

The legal enactment, whereby the dividends to stock-holders in gas companies fluctuated with the price of gas, pointed the simple way to an extension of the sliding scale in favour of the worker: thus giving a perfect example of division in which the owner of capital, the active producer, as well as the consumer, shared on a regular basis.

Thus, at 3*s*. 1*d*. per thousand cubic feet the shareholder received 4%, the employee nil.

For every 1*d*. reduction in the price, the shareholder received an additional 2*s*. 8*d*. % on his capital and the copartner 15*s*. % on his wages.

The copartner's bonus is divided. One half is invested in the company's stock; the other half is left to accumulate at interest, or it may be invested in stock with the trustees, or it may be withdrawn, under special circumstances, by giving a week's notice.

Stock, thus acquired by copartners, may not be sold, pawned, or pledged, without the consent of the secretary of the company. A committee of management, one half appointed by the company, the other half elected by the copartners, controls the scheme, the details of which may not be altered except with their sanction. In addition, it was provided by the company's Acts of 1896–7, that directors representing the copartners should be appointed to the board, in definite proportion to the stock held by the copartners. At present, three of the ten directors have been so appointed. The same plan is followed by the South Suburban Company.

In 1920 the total stock held by the copartners was £422,000. The employees in 1920 fluctuated

from 7,925 to 9,734, of whom 8,200 were qualified as copartners.

For twenty-nine years to 1917 inclusive, the total copartnership dividend or bonus was £771,804, the rates of dividend on wages varying from $2\frac{1}{4}\%$ to $9\frac{3}{4}\%$. For the eighteen years, 1896–1914, it was always $7\frac{1}{2}\%$ or over, except in 1901, when it was $3\frac{3}{4}\%$.

The Gas, Light, and Coke Co.'s scheme at June 30, 1920, comprised 9,720 copartners, holding £234,910 stock and £104,906 deposits.

The Great War seriously affected the earning powers of the gas companies. Their costs of production rose, so that the price of gas, under the South Metropolitan scheme, for instance, advancing above the 3*s.* 1*d.* datum, there was no copartnership dividend for the employee and only bare interest for the shareholder.

The nature of the gas business has also undergone considerable change. The production of gas is no longer its principal object. Indeed, during the war it was quite secondary. Again, while, as gas-producers, the companies hold local monopolies, as producers of residuals they are in world competition.

The South Metropolitan Company has now

abandoned the sliding-scale, and its Act of 1920 provides for a minimum rate of interest, on existing stock, of 5% per annum, with a standard price for gas fixed at 11*d*. per therm. Any surplus will be divisible in the proportion of 75% to the consumers by way of reduction of price, and 25% in equal parts, to the shareholders and copartners, respectively.[1]

The sliding-scale would thus seem doomed to disappearance, but of course this makes no difference to the copartnership schemes, except that it simplifies the method of division.

Some gas companies have never worked under the sliding-scale at all; they have been on the "maximum dividend" principle; when this maximum dividend has been earned, it becomes the equivalent of fixed interest, and in a copartnership company, all further saving is divided between the consumer and the producer. Some municipal gas enterprises have adopted co-partnership, which has also been extended to gas companies in the U.S.A., including New York, Boston, New Haven, Baltimore.

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[1] Circular of South Metropolitan Gas Co., September 2, 1920. The dividend on stock for 1920 was 5% as against 3% payable in 1919 under the sliding-scale. Thus there was no dividend for copartners in these years.

(4) *J. T. and J. Taylor, Ltd.*[1]

This copartnership is closely parallel with the schemes of Godin and Leclaire, where the sole owner of a business gradually transfers it to the employees.

"In 1892," says Mr. T. C. Taylor, founder of the copartnership, "I became sole proprietor of the business, which for generations had been in my family, and at once began profit-sharing with heads of departments, and the next year with the foremen. Four years later (1896) I converted the business into a private limited liability company, as from the beginning of 1895, in order to admit all ranks of employees to a scheme of profit-sharing and copartnership."

As in the Godin scheme, there are two classes of share, the A class held by the founder, B class representing shares transferred to copartners.

After payment of 5% interest, the surplus is divided between shareholders and copartners, in the proportion of total capital to total pay-roll. The copartnership dividend is paid in B shares, which carry the same rights to dividend as the A shares, but have no voting rights.

[1] Woollen manufacturers, Batley, Yorkshire; 1,850 employees; capital, £300,000; Cmd. 544, p. 86.

Again the scheme follows Godin in its grading plan, whereby double bonus is paid to employees not less than twenty-one years of age, of five years' service, and owning shares equal to half a year's wages.

A copartner must accumulate his shares until he has a minimum equal to a year's wages. Thereafter he may sell his shares back to the company or to other copartners—but not to outsiders—at par. A copartner leaving the company may be required to sell his shares within six months. Transfer may, in any case, be deferred three months, at the company's option.

The copartners, during twenty-six years, have acquired more than half the capital of the company and receive more than two-thirds of the profits. The copartnership dividend has fluctuated considerably—in two early years of the scheme there was no dividend at all. To the end of 1918, the dividends on capital (including interest) averaged 12%, the dividends on wages 10¾%. For 1919 and 1920, the workers' dividend was 12½%. Over £500,000 has been distributed to the copartners since the commencement of the scheme.

An individual case is quoted as typical, where

an employee earning £5 a week has received in recent years about £1 16*s.* weekly addition to his wages, through the copartnership.

This simple and successful scheme closely approaches the ideal of complete copartnership as applicable to the conditions ruling in Great Britain.

(5) *Lever Brothers, Ltd.*[1]

Lord Leverhulme, in his public addresses,[2] has explained how the desire to associate employees with "prosperity-sharing" went back to the earliest days of his successful enterprise.

Like Godin, he found these means at first in the development of welfare schemes, building Port Sunlight village, with its amenities, and the like.

The existing copartnership scheme was inaugurated in 1909, twenty-one years after the foundation of the business.

The distinguishing feature is the device of "partnership certificates" representing the nominal holding of the copartner. These certificates have no exchangeable value, and cannot be

[1] Soap manufacturers, Port Sunlight and elsewhere; employees at Port Sunlight, 10,000 in 1920; capital, £46,769,079.

[2] *The Six-hour Day and other Industrial Questions*, 1918.

transferred or negotiated in any way. They are cancelled when a copartner leaves the employment.

The total amount of partnership certificates authorised to be issued is fixed by trust deed, and is at present approximately the same as the ordinary capital, namely, £2,000,000.

The certificates are issued in instalments, year by year, so that the holding is cumulative till the maximum is reached.

The nominal amount of certificates issued is based on a grading plan.

It is understood that each copartner is graded according to the service rendered—the main object being to assign extra certificates where there has been exceptional service. There are several classes, the maximum nominal value of certificates which may be held varying with the class. For example, the maximum for staff class is £200. The classes include directors, management and foremen, salesmen, staff.

Thus the individual amount of certificates issued each year is weighted for individual service, also for grade of service, and, subject to this weighting,[1] is approximately proportional to earnings.

[1] Compare Godin, *supra*, also the Laroche scheme *infra*.

Considerable latitude in assignation of partnership certificates is thus permissible. Copartners dissatisfied with their allotment have the right of appeal to a committee, composed jointly of staff and management.

The surplus profits, after payment of preference dividends and 5% interest on ordinary capital, are divided between the ordinary capital and the total partnership certificates issued and the 5% A preferred ordinary shares (referred to below) in proportion to their respective amounts. Thus, the dividend on ordinary capital (in addition to 5% interest) and on the partnership certificates is at the same rate per cent.

At January 1, 1921, the nominal value of the partnership certificates issued was £1,399,438.[1] When the total partnership certificates issued equals the total ordinary shares, the division of the surplus profits between copartners and ordinary shareholders would be equal.

The copartnership dividends are paid in shares, namely, a special class of A preferred ordinary share, carrying dividend at the rate of 5%.

The copartner has the option of receiving cash instead of shares.

These shares, if held by the copartner, possess

[1] Includes £146,587 preferential certificates (p. 148).

special rights. Though nominally 5% shares, so long as they are held by an active copartner, they receive a bonus, making the total dividend equal to that paid on the ordinary shares.

If the employee ceases to be an active copartner, the shares revert to the nominal 5% dividend; if they are sold by the copartner, they again revert to the 5% basis. This plan is an ingenious method for associating the copartners, as shareholders, with the surplus earnings during their copartnership, while automatically withdrawing the privilege when copartnership ceases, at the same time avoiding constant transfers of shares from retiring copartners to new copartners.

When an employee retires through ill health or old age, or if his services are dispensed with through no fault of his own, his partnership certificates are cancelled, and he receives in exchange preferential certificates, which bear interest at 5% on their nominal par value, and are a charge on profits, ranking next after the 5% interest on the ordinary shares. The nominal amount of such preferential certificates is either ten times the average dividends paid during the three preceding years, or the same nominal amount as the partnership certificate, whichever is the less.

If the holder of either partnership or preferential certificates dies, leaving a widow, she receives preferential certificates in her own name, and is entitled to hold them while she remains a widow.

The copartnership scheme has been extended to several associated companies both in the United Kingdom and abroad. There were in 1921 8,336 copartners (active and retired). In the twelve years to January 1, 1921, the total distribution of copartnership dividends and bonus on shares amounted to £1,118,678. The share capital held by copartners was £718,666.

Every employee of twenty-one years of age, male or female, with one year's complete service at December 31 in any year, is eligible for admission, on signature of a simple application form, which includes an undertaking "not to waste time, labour, materials, or money."

(6) *American.*

The outstanding example in the United States is the Procter-Gamble scheme.[1] Originally a

[1] The Procter and Gamble Company, soap manufacturers, Ivorydale, near Cincinnati, and elsewhere; 6,000–8,000 employees; capital, $72,000,000.

simple profit-sharing, adopted in 1887, following a series of strikes, it has developed into a complete copartnership.

The copartnership dividend is paid on wages and salaries (but not above $2,000 a year) on a sliding-scale, beginning at 10%, and increasing by 1% with each year of service, to a maximum of 20%. It will be seen that the copartnership dividend does not fluctuate with the shareholders' dividend; thus, the copartnership dividend has a priority claim before the shareholders receive any share at all. It is a most generous scheme, though the allocations work out very close to those arrived at by application of the standard formula.[1]

The copartnership dividend is accumulated till stock equal to one year's earnings has been acquired. Thereafter the dividend is payable in cash.

After four years' copartnership, additional stock may be taken up, but not more than $500 in one year.

If the original holding of stock is sold without the consent of the trustees, the employee loses his copartnership privileges.

Out of the twelve directors three are employees, elected by secret ballot.

[1] Page 43.

During the year 1920, 2,923 employees participated in the scheme, receiving $488,972 in dividends.

The method adopted to encourage stock-holding is to make it compulsory for an employee desirous of sharing in the copartnership to apply for common stock equal in cost to a year's earnings, and to pay for it by small monthly instalments. In this way an employee should become owner of his stock in about four years. He then receives the usual dividends declared on the common stock which he has thus acquired through the copartnership scheme.

In 1920 the copartners owned 4,071 nominal $100 shares of common stock paid for and delivered, and 24,006 shares subscribed and undelivered.

The Baker Manufacturing Company [1] since 1899 has worked on a copartnership plan, especially interesting as following closely the lines we have laid down for ideal copartnership.

The weekly or monthly payments to employees are called "partial wages," and the share in sur-

[1] Windmills, gasoline engines, etc.; Evansville, Wisconsin; employees in 1914, 161; capital, $300,000, U.S. *Bulletin*, 208, 1917, pp. 37–44 (described anonymously).

plus "remaining wages." The surplus remaining, after payment of 5% interest, is divided, 10% to a sinking fund and the remainder to capital and employees in the proportion of *interest* and wages—that is, the Godin plan is followed.

One-tenth of these "remaining wages" is paid in cash, the balance in common stock.

The founder justifies the method of division as follows: "The employer invests his capital and labour its energy. The first gets his return in the shape of interest on the investment, the second gets his return in the form of wages. The remainder of the gross profits constitutes the net earnings of the business, created jointly by capital and labour, to be distributed in proportion to the relative interest in the business of each of the two partners, namely, amount of interest on capital and wages."[1]

In consequence of the formula adopted the dividends on wages have ranged very high, even beyond the 100%, which has now been fixed as the maximum. The employees hold more than half of the entire capital.

The scheme of A. W. Burritt Company[2] is

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[1] Loc. cit., p. 13.

[2] Lumber dealers, Bridgeport, Conn., Cmd. 7283, p. 98.

interesting on account of the provision it contains for loss-sharing. After 6% has been paid on capital the surplus is divided equally between the shareholders and the employees. To provide against loss 10% of the wages are retained weekly, this reserve being returned at the end of the year, if no loss has been made.

Winship, Boit, and Company [1] also share losses, and workers sign an agreement to this effect. Each employee starts with a base capital account equal to 20% of a year's wages, plus 1% for each year of service. Six per cent. is paid on capital. Surplus is divided equally; half the copartnership dividend is paid in cash, half credited to capital account.

The Nelson scheme, wherein capital, labour and consumer each participate, is described in a later chapter.[2]

The American official report [3] details sixty profit-sharing and copartnership plans—mostly profit-sharing—the oldest dating back to 1886. The average dividend to employees is one half to three-quarters the dividend to stock-holders.

[1] Manufacturers of underwear, Wakefield, Mass.; 800 employees; *Factory*, New York, 1920, p. 1875.

[2] Nelson Manufacturing Co., St. Louis, see p. 210.

[3] *Bulletin of U.S. Bureau of Labour Statistics*, whole No. 208, 1917.

(7) *General.*

Copartnership has been continuously developed in France, and over one hundred schemes—complete or partial in their operation—are described by M. Trombert.[1] In addition, there are said to be over seven hundred workers' associations, constituted on copartnership lines, some of which date back fifty years. Profit-sharing is also the rule amongst the French co-operative distributive societies.

Seventeen French insurance companies have copartnership schemes, mainly due to the efforts of M. Charles Robert, sometime President of Leclaire's Mutual Aid Society, and a distinguished advocate of copartnership. The Mutual Aid Society method, whereby the copartners become indirect holders of capital through their membership of the society, is largely adopted in the French schemes. By French law copartners' deposits have priority over other creditors in winding-up.

From time to time copartnership legislation has been introduced in France. An elaborate scheme was drawn up by the Government in 1910

[1] *La Participation aux Bénéfices : Guide Pratique*, Paris, 1912 ; English translation, 1920, P. S. King & Son.

as a solution of the miners' grievances, but was rejected by the trade unions. A bill introduced into the French Parliament in 1892 provided that, after payment of 5% to reserve, 10% to management, and 6% to shareholders, the surplus, if any, should be divided equally between capital and labour, the individual participation being in proportion to the number of hours worked, no account being taken of the different rates of remuneration.

The Laroche-Joubert[1] scheme dates back to 1843; in its present form to 1882.

After providing for depreciation and 5% to reserve, and payment of $4\frac{1}{2}$% interest, the surplus is divided:

Capital	Management	Workers
25%	25%	50%

The individual distribution to the workers "is regulated by the two factors of earnings and seniority taken in combination."

Thus, after ten years' service, wages are reckoned for the distribution at 10% additional; fifteen years' service, 20%; thirty years' service,

[1] Maison Laroche-Joubert et Cie, paper-makers, Angoulême; 1,100–1,200 employees; capital, 750,000 frs.

50%; and so on. In the same way the nominal sharing is increased 50% to 200% to allow for importance of duties, a table of occupations being fixed for this purpose. Copartners have the option of taking their dividends in cash or in shares, or of leaving them on deposit or current accounts. About one-third of the capital, fixed and floating, is held by the employees. The Board of Management includes several representatives, elected by copartners.

The Bon Marché, Paris, where the whole of the capital of about 9,000,000 francs is held by present and retired members of the establishment, is another well-known French example.[1] Michelin's scheme at Clermont-Ferrand is based on partnership certificates of the Lever Brothers' type.

In Holland there is a well-known scheme, the distillery of J. C. van Marken, and several copartnership associations of workers.[2]

Germany never got beyond profit-sharing, and made little progress with that.

Switzerland has profit-sharings, but no copartnerships.

In Italy, by a decree of September 28, 1918,

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[1] Described in Cmd. 7283, p. 10.

[2] Cmd. 7283, p. 62.

legal sanction is given to profit-sharing and creation of copartnership funds. More recent legislation and movements in Italy are on distinctly copartnership lines.

Full details of British schemes are to be found in the Ministry of Labour report on *Profit-sharing and Labour Copartnership in the United Kingdom*, issued in 1920.[1] This is the continuation of previous reports initiated by the late D. F. Schloss.[2] The schemes described, some 250 in all, include all varieties of sharing—co-operative, profit-sharing, partial copartnership, complete copartnership.

No less than twenty-nine new schemes were recorded in 1919, and included in the report. Since it was issued several additional schemes have been started, to some of which brief reference follows.

Messrs. Tootal, Broadhurst, Lee, Co., Ltd.,[3] since August 1919, after payment of $7\frac{1}{2}\%$ per annum to capital, divide the surplus in such a proportion that for every extra $\frac{1}{2}\%$ received by capital the worker receives 1% on wages, until 15% in all

[1] Cmd. 544.

[2] *Methods of Industrial Remuneration*, 1st edition, 1892.

[3] Cotton printers, Manchester; 3,000 employees; capital, £1,200,000.

has been paid to both, after which they share equally.

The dividend is paid in cash, but employees may leave their dividends on deposit at 5%, or may take up employees' shares at par, transferable at par and only to employees or ex-employees. These shares rank with the ordinary shares for dividends. The copartnership dividend for the first year was 15%.

"An employee, who, in the opinion of the directors expressed by resolution, has individually or in combination done anything tending to diminish the profits or damage the reputation of the Company" is liable to lose the bonus.

Messrs. Bryant & May, Ltd.,[1] since April, 1919, after payment of 8% interest, free of tax, divide surplus equally between the ordinary shareholders and copartner employees, who receive copartnership shares, ranking with the ordinary shares for dividend, or cash, at option, against their dividends. These shares will not carry any interest in reserves, and must be relinquished to the Brymay Partnership Trust, Ltd., at their par value, when the employee ceases to be an active copartner. For the year 1920–21, £24,000 was

[1] Match manufacturers, Bow; 3,000 employees; capital, £2,000,000.

distributed to the employees, and an additional 3 %, free of tax, to the shareholders.

Messrs. Joseph Smithson, Ltd.,[1] since September 1919, after payment of 6% interest, divide surplus in the proportion between the ordinary capital and the total wages. The dividends are distributed in the form of ordinary shares held by trustees. The dividend on wages for 1920 was at the rate of 9%. Shares may be sold amongst copartners, but a £5 holding must be retained.

[1] Stuff manufacturers, Halifax; 350 employees; capital, £150,000.

CHAPTER IV

COPARTNERSHIP ORIGINS

§ 1. French Influence

THE historical aspect of copartnership is full of interest both to the student of economics and the social reformer; but we must be careful to remember, in tracing the history of copartnership ideas and practice, that we are dealing with an industrial system which was itself in constant change.

Though copartnership is scoffed at to-day by the "socialist" (the word has become as meaningless as "capitalist"), it is none the less true that its origins are to be found in socialist aspirations of the early and middle nineteenth century.

In France, for example, that home of social dreamers, the socialist philosophy of Fourier [1] became the direct inspiration of Godin. When he first read Fourier's writings at the age of twenty-five, and nearly forty years previous to the foundation of the great copartnership, Godin

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[1] 1772–1837.

regarded them as a revelation. They became to him " the compass of his life."

Fourier's social scheme of universal harmony was a fantastical attempt to promote the perfection of mankind, by associating in groups—large enough to include the whole circle of human strength and weakness—men and women of varied natures.

On the economic side, Fourier advocated a pooling of the total joint product, so as to give a reasonable subsistence to each member.

The surplus was then divided into twelve portions, of which five went to labour, four to capital, and three to talent.

No less than forty such groups, or phalansteries, were established in America between 1840 and 1850. The longest-lived was the North American Phalanx, which lasted just twelve years.

The calculation of wages in this community was based on a novel plan. The payment varied inversely with the " attractiveness " of the job. Thus, a mason received 50 cents a day, but the doctor 6¼ cents. The sharing of surplus followed the lines laid down by Fourier.

Amongst the financial supporters of the Texas Phalanx, we find Godin, who risked 100,000 francs, the main part of his fortune, in the enter-

prise. Its complete failure and the loss of his subscription did not shake his faith in the principles of Fourier; but he learned the lesson that reforms, to be successful, must be practical and founded on the basis of "things as they are."

Thus the visionary Phalansterie of Fourier led to the practical Familistère of Godin, who set his hand to this enterprise in 1856.

Later, when the further progress of the business enabled him to commence the copartnership (1879–80) it was the formula of Fourier, which he adopted, with its tripartite division of surplus between capital, labour, and talent, or ability.

Other reformers had other remedies. Louis Blanc[1] demanded the institution of social workshops, in which wages would be abolished and the workers would freely choose their directors and managers, dividing the profits among themselves. Thus would be built up an industrial state, proceeding "from the solidarity of all the workers in the same workshop to the solidarity of the workshops in the same industries."

The Revolution of 1848 gave Louis Blanc the opportunity of carrying these schemes into practice. The Provisional Government proclaimed

[1] 1811–1882.

"the right to work," and gave financial assistance to various industrial schemes.

Godin's contemporary views are interesting. "The idea of communism," he says, "arises from resentment against the abuse of enjoyments, while others lack necessaries. It is the protest of labour, angered by the unjust distribution of the fruits of production. But the hatred of evil is not always the knowledge of good—there lies the defect of communism." [1]

Leclaire, the father of profit-sharing, had started his Mutual Aid, six years before the Revolution.[2] The reduction of the daily hours of labour to ten, loudly proclaimed by Louis Blanc in 1848, had been actually accomplished by Leclaire in 1841. In so many of these matters is it true: *solvitur ambulando.*

In that atmosphere, electric with revolution, every social reformer found himself suspect by authority. Godin's premises were searched in 1848; on September 21, 1843, a police report of Paris stated that "it will be a danger for the working classes, and an abuse, to authorise the reunions of the workmen of M. Leclaire, painting

[1] *Copartnership and Profit-sharing*, p. 119, Aneurin Williams.
[2] P. 135.

contractor, to concert upon the distribution of the profits, accruing from the business."[1]

Partly based on the advocacy of Buchez,[2] partly on the demagogism of Louis Blanc, arose the groupings of workers known as "associations ouvrières," upwards of one hundred of which existed in 1850.

The association of pianoforte-makers, for example, was started by fourteen workmen on March 10, 1848. They possessed tools and materials, valued at 2,000 francs, together with a small working capital of 229½ francs in cash.

For two months, it was necessary to work without drawing a sou from the business. They contrived to live during this period by selling and pawning their household goods. On May 4, they received a payment for work done, which enabled them to clear all debts due and to pay a dividend to each member of 9 francs 61 centimes. In June they were able to draw 5 francs a week each, out of the business.

During that month, a baker offered to buy a piano, paying the 480 francs charged for it in bread. By August 1849, they were able to

[1] Charles Robert, *Biographe d'un homme utile: Leclaire* (Paris, 1878).

[2] *A Method of ameliorating the Condition of the Wage-earners of Cities* (Paris, 1831).

draw 10 francs a week each. At the end of 1850, the number of shareholders had increased to thirty-two and the net assets to 32,930 francs. By sacrifice and exertion, these thirty-two workmen had created, in less than three years, a successful business, entirely controlled and owned by themselves.

Some of these associations started with the help of state loans, the Provisional Government having voted 3,000,000 francs for this purpose.

The association of operative jewellers, for example, founded under the influence of Buchez in 1831, by eight workmen, with their united savings of 200 francs, received a state subvention of 24,000 francs in 1849. Their business was valued in 1858 at 140,000 francs, and yielded each partner an annual dividend equal to double the ordinary wages.

The workmen's associations were largely suppressed by Napoleon III at the *coup d'état* of 1851. John Stuart Mill found some twenty-five in existence in Paris in 1854, besides several in the provinces, and some of these survive to this day.

§ 2. John Stuart Mill

Mill had described the French working men's associations with enthusiasm in the first edition

of his epoch-making *Principles of Political Economy*.[1]

The chapter " On the Probable Futurity of the Labouring Classes " (Book IV, chapter vii), had a profound influence on English industrial politics.

In this chapter the experiment of Leclaire is selected for detailed treatment.[2]

Other French profit-sharing schemes described by Mill are: Dupont's printing office, where 10% of profits was assigned to workmen, these profits being left as savings to accumulate at interest; Gisquet's oil refinery at St. Denis, a 5% profit-sharing, which yielded an annual gratuity equal to six weeks' wages; Besley's engineering works, Paris, with a " contract of association, one of the most complete, which have ever been made between employers and employed."

Excellent as these capitalist profit-sharing schemes appear to be, in Mill's opinion the greatest possibilities lay before the associations of workmen, creating and collectively owning their own capital. These ideas, hitherto visionary, he thought had been proved practicable by the experience of 1848. He then quotes the examples,

[1] Published in 1848.

[2] *Principles of Political Economy*, pp. 767–72, J. S. Mill, edited by Sir W. J. Ashley, 1920. Leclaire's scheme had been described in *Chambers's Journal*, September 27, 1845.

previously detailed, of the workers' associations founded in France at that time, and referring to their partial suppression, he hazards the opinion that "the vitality of these associations must indeed be great to have enabled about twenty of them to survive, not only the anti-Socialist reaction . . . but . . . all the difficulties arising from the trying condition of financial and commercial affairs from 1854 to 1858,"[1] and he is still assured "as to the brilliant future reserved for the principle of co-operation" (Mill's term for what we now call labour copartnership).

In Mill's view, the working classes, having attained to political freedom and to a high standard of intelligence, will not be "permanently contented with the condition of labouring for wages as their ultimate state."

The present relationship is as unsatisfactory to the employer as to the employed. "We look in vain among the working classes in general for the just pride, which will choose to give good work for good wages; for the most part, their sole endeavour is to receive as much and return as little in the shape of service as possible. It will sooner or later become insupportable to the employing classes to live in close and hourly contact

[1] Loc. cit., 1862 edition.

with persons, whose interests and feelings are in hostility to them. Capitalists are almost as much interested as labourers in placing the operations of industry on such a footing that those who labour for them may feel the same interest in the work, which is felt by those who labour on their own account."

Written more than seventy years ago, these words have all the flavour of contemporary comment.

The aim of improvement, he argues, should be "not solely to place human beings in a condition in which they will be able to do without one another, but to enable them to work with or for another, in relations involving dependence."

Thus he arrives at the suggestion that "the civilising and improving influences of association, and the efficiency and economy of production on a large scale, may be obtained, without dividing the producers into two parties, with hostile interest and feeling."

Finally, he predicts "that the relation of masters and workpeople will be gradually superseded by partnership in one of two forms: in some cases association of the labourers with the capitalist, in others, and perhaps finally in all, association of labourers among themselves." [1]

[1] Loc. cit., p. 764.

We have endeavoured to state Mill's deduction of copartnership in his own words, first, because its inherent logic is as powerful to-day, as when he wrote; second, because these views undoubtedly greatly influenced social reformers and thinkers in this country.

§ 3. Robert Owen

An earlier influence than Mill's had, however, already stamped itself on the English movement towards industrial association.

In this movement Robert Owen had played both Fourier and Louis Blanc.

This remarkable man, a saddler's son, was born at Newtown, Montgomeryshire, May 14, 1771. He died November 17, 1858.

By 1790, he had become manager of a Manchester cotton-mill, one of the typical creations of the Mechanical Revolution.

Thence he gravitated to New Lanark in Scotland, where cotton-spinning mills were built in 1795.

For twenty years, 1800 to 1820, Owen's life centred in his mills and village. The conditions of industry were vile. Owen set himself to improve them, to apply at least the same care to human machinery as was applied to inanimate

machinery, and he thus became the pioneer of modern industrial welfare.

He reduced the daily hours of work; refused to employ little children; maintained good wages; and by organisation, carried his factory through the American embargo on cotton, without unemployment, and through the slump that followed Waterloo, without reducing wages.

Sick funds, savings banks, and other institutions, commonplaces of to-day, received their first application in industry from Owen.

The population of New Lanark was raised to a high level of morality and prosperity. The village schools, giving free education to all, were Owen's special pride; while, next, came the village stores, which he established to supply all household requirements at cost price.

He found material success as well, and created a prosperous business, earning large profits. In 1813, he bought out the old partners and took over the complete control, in association with others, who sympathised with his methods and aims. Amongst these sleeping partners was Jeremy Bentham. The arrangement was in effect a copartnership, and has some claim to be the first of its kind.

There were thirteen shares, each of £10,000, of

which Owen held five. The shareholders received 5 % as interest and the surplus was to be "freely expended for the education of the children and the improvement of the workpeople at New Lanark, and for the general improvement of the condition of the persons employed in the manufactures." [1]

Owen's methods were founded on rare common sense and shrewd insight into human nature. On this empirical knowledge he commenced to build theories. Believing with Rousseau, that man is born virtuous and that evil is inherent, not in man but in institutions, he argued that moral improvement is simply acquisition of good habits of behaviour.

Man, therefore, can be drilled and trained into good habits, and especially is this result facilitated if there is a suitable environment.

Thus, the organisation, which he had successfully applied to the factory at New Lanark, being applied to the community in general, would have general success. The paternal arrangements —schools, stores, and the rest—of his village needed only to be repeated on a sufficiently large scale to ensure universal happiness.

[1] *The Life of Robert Owen by Himself*, p. 131, 1857 (reprinted Bohn's Library, 1920).

His propaganda, both in the *New View of Society*, 1813, and in other forms, attracted much attention. He says himself, that in 1817 the Government was ready to give him whatever he had asked.

He failed, none the less, to secure Government assistance for his schemes, and fell back on voluntary experiments having the same object. Communities on the Owenite plan of "unity and mutual co-operation" were established at Orbiston in Scotland, Rahaline in Ireland, and in many places in England.

Assured that he "had ascertained to a great extent, practically, how populations should be trained, educated, and occupied to make them good, intelligent, and happy,"[1] he determined to carry his schemes to completion, whatever the cost might be.

"I felt that, to attain this glorious result, the sacrifice of character, fortune, and life of an individual was not deserving a moment's consideration."[2]

Owen did, in fact, sacrifice his fortune to his theories. The final community experiment, that of the New Harmony in Indiana, following his

[1] Loc. cit., p. 180. [2] Loc. cit., p. 181.

visit to America in 1825, ended in failure and in the loss of his capital.

The convinced individualism of the American people must owe some of its strength to the long series of unsuccessful social experiments, which they have seen perpetrated in their midst.

In spite of the disastrous end of his schemes, built on inadequate theories of human action, Owen exercised a great influence, both in his capacity of "prince of cotton-spinners," prior to his American adventures, and as indefatigable propagandist—communist, secularist, co-operator, spiritualist—a rôle which he filled for many years after his return.

Through his influence, was passed the second Factory Act of 1819, forbidding the employment in factories of children under nine. He thus pioneered that long line of industrial legislation, which marked the nineteenth century.

He was the first man to realise the extraordinary increase of productivity brought about by the Mechanical Revolution. He estimated that the application of machinery had been equivalent to the addition of 200 millions to the working population. Through the continuous growth of wealth, derived by this almost miraculous means, and its equitable distribution, Owen, in his exalted

moments, believed that a new heaven and earth would arise in his own time.

His store at New Lanark was the forerunner of the "union shops," which sprang up under his influence. In 1829, 130 such societies were said to be in existence. On their débris the later co-operative movement was successfully raised. Of the original Rochdale Pioneers (1844) six were Chartists, six were Owenite Socialists.[1]

He founded the first trade union amongst the Lancashire operatives in 1829. His Grand National Consolidated Trades Union, formed in 1834, actually attained a membership of half a million. Its aim appears to have been syndicalist, with a savour of copartnership, based on "a universal compact among the productive classes."

His "labour exchange notes," which expressed the value of goods in terms of the hours of labour expended on them, and his motto, "Labour is the source of all wealth," prepared the way for Marx's theory of surplus value. His scheme of retail sale at cost and abolition of profit on price formed the solid basis of the co-operative movement, which developed from the Rochdale experiment of 1844.

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[1] *The Co-operative Movement*, p. 61, Beatrice Potter, 1920 edition.

Thus, again, we are brought to the eventful decade of the Hungry Forties and the Chartists.

In that same year, Godin was building his business and absorbed in the study of Fourier; Leclaire had already established his Mutual Aid; Louis Blanc was preaching social workshops; the Revolution of '48 was in full brewing. Carlyle's *Past and Present* had launched its thunderbolts in 1843.

§ 4. The Christian Socialists

Though, in keeping with their Owenite origin, the Rochdale Pioneers included in their prospectus a clause—

> "That as soon as practicable this society shall proceed to arrange the powers of production, distribution, education, and government—or, in other words, to establish a self-supporting home colony of united interests, . . ." [1]

they wisely confined their attentions to distribution, and it was not till many years later that the co-operative movement launched into production.

The English movement towards workers' asso-

[1] Another clause provided for "the manufacture of such articles as the society may determine upon, to provide employment of such members who may be without employment, or who may be suffering in consequence of repeated reductions in wages."

ciations, which developed in the early fifties, originated outside the co-operative pale, under the influence of Mill and Carlyle, and the example of the French associations.[1]

Indirectly, it may be traced back to Owen, inasmuch as the Christian Socialists, who inspired the movement, deliberately set themselves to promote a socialism, purged of the secularist doctrines, which had made Owen's teachings repugnant to all religious men.

It was J. L. Ludlow, who brought the idea of the social workshops from Paris, where he had seen these experiments in actual operation. Their leader was F. D. Maurice, who, with Ludlow, Charles Kingsley, Tom Hughes, later Vansittart Neale, and others, formed in 1849 the "Society for Promoting Working Men's Associations."

The society set up, or encouraged, a number of self-governing workshops. The capital was to be owned, or borrowed, and controlled by the workers, who would enjoy all the profits, one-third being capitalised each year.[2]

The first association of working tailors was formed in 1850, soon followed by associations

[1] See *Christian Socialism*, C. E. Raven, 1920.

[2] This idea was derived from Buchez.

of shoemakers, bakers, builders, printers. Altogether some thirty or forty associations were eventually started.

The greater part of the capital was loaned by the Christian Socialists at 4 per cent.

"I certainly thought," said Judge Hughes, "that we had found the solution of the great labour question."

Similar views were inspired in other quarters. The Amalgamated Society of Engineers, in 1857, resolved "that hostile resistance of labour against capital is not calculated to enhance the condition of the labourer," and "that all future operations should be directed in promoting the system of self-employment in associative workshops, as the best means of effectually regulating the conditions of labour."[1]

In pursuit of this aim, numerous associations, particularly in the textile trades, were formed outside the Christian Socialists' experiments. For the main part they disappeared without trace.

Whatever their moral success, all these experiments were commercial failures. In these and similar co-operative enterprises Vansittart Neale lost £60,000.

The democratic government proved to be

[1] *The Co-operative Movement*, p. 124.

anarchy. There was no discipline. The rights of self-government had to be taken away early in the experiment. The capital was furnished by the unsophisticated Christian Socialists, who seem to have entirely overlooked the feature, which gave strength to the French associations—the sacrifices made by the workers to provide their own capital.

With lessons learned from these failures, there grew up, at a later date, small but healthy groups of working men's copartnership associations, nearly one hundred of which exist to-day. These undertakings are described in the following chapter.[1]

§ 5. Mazzini

Amongst the many voices raised in protest against the *laissez-faire* doctrines of the time, none had wider influence than Mazzini. *The Duties of Man*, addressed to the Italian working class, was published in 1858. It claims for all men the right to just recompense. It dismisses the iron law as a falsehood. The remedy is not in communism, which would be "a life of beavers, not of men . . . under such a system the human family would become a herd, needing nothing more than to be led to a sufficient pasture."

[1] P. 196.

Rather is salvation to be found in " the union of capital and labour in the same hands."

" Wherever," says Mazzini, " you find capital and labour united in the same hands, wherever the profits of labour are divided between all who labour, in proportion to the increase of those profits and to the amount by which each workman has helped in the collective work, you find a decrease of poverty and at the same time an increase of morality." [1]

Again: " Association of labour, division of the profits of labour—that is, of the profits resulting from the sale of products—among the labourers, in proportion to the amount and the value of the work accomplished: this is the social future." [2]

These copartnerships, which in Mazzini's view represent the true way to progress, may be created by either of two means. First, by self-sacrifice, as in the French associations, second, "perhaps," by employers admitting workers to a share of profits, such copartnership forming " an intermediate stage between the present and the future." [3]

Thus through copartnership shall the worker be finally free:

[1] *The Duties of Man and Other Essays*, p. 109, Joseph Mazzini. Everyman's Library.

[2] Loc. cit., p. 109. [3] Loc. cit., p. 114.

"You were *slaves* once; then *serfs*; then *wage-earners*; before long you shall be, if you will it, free producers and brothers in association."[1]

§ 6. The Briggs Experiment

The first response to Mill and the social reformers came in 1865, when the famous Briggs scheme was initiated. A copartnership between employer and employee was, indeed, hardly practicable under English law till the passing of the Limited Liability Act in 1862.

The Briggs scheme attracted considerable attention.[2] It was copied in Germany, where Engel proclaimed it as the "solution of the social question."[3]

In practice the scheme was a profit-sharing rather than a copartnership, though it included copartnership features.

Thus, a workmen's committee was formed to advise on improvements in methods. In 1869 a workman was elected to the board.

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[1] Loc. cit., p. 109.

[2] Henry Briggs, Son & Co., Ltd., Whitwood and Methley Collieries, Normanton, Yorks; 1,203 employees (1868).

[3] W. Borchert's scheme, Berlin, 1867, the failure of which exercised an unfavourable influence on profit-sharing and copartnership ideas in Germany. Cmd. 7283, p. 38.

The scheme was abandoned after nine years' working, as the result of difficulties with the trade unions, not unmixed with other problems, such as are likely to be encountered in all pioneer effort in this field. It is not every employer who has the will or the opportunity to devote thirty years to careful preparation in advance, as did Godin.

The Briggs scheme was started after a series of serious strikes. The method of division was simple. After capital had received 10%, the surplus was divided, half to labour, half to capital.

The labour copartner's share was paid as a dividend on wages.

Employees who were also shareholders received half as much again as the others. Easy arrangements were made for taking up shares.

The distribution was continued annually and averaged 6% on the wages of the non-shareholder-employees, 9% on the wages of the shareholder-employees.

In 1872, after the Franco-German War, there was a boom in the coal trade followed by a serious slump.

During the boom the district rate of wages was raised, and Briggs' employees, who had for the main part, on their own accord, ceased member-

ship of the trade unions, now rejoined to obtain the advantage of the increased wages.

They received an advance of 50%. The shareholders decided that they were entitled to the same advantage, and increased the "reserved limit" from 10% to 15%. Profits were considerable, and in spite of these rearrangements, there was a sufficient surplus to pay a 10% dividend on wages and an additional 10% to shareholders.

The collapse in the coal trade came in the winter of 1874. Reductions of wages were demanded by the employers, and, as usual, resisted by the unions. The struggle ended in a month's strike, the Briggs colliery included. At their meeting in February 1875, the shareholders in consequence decided to withdraw the profit-sharing.

The failure of the Briggs scheme can be ascribed to two causes. First, the burst of prosperity and consequent large profits. Out of these profits, in 1873–4, the reserve was increased by £26,600; and over three years the depreciation and renewals account was credited with £151,377. These were doubtless wise reservations, but, in the absence of a definite understanding as to such allocations, an atmosphere of suspicion was

created. Similarly, a capitalisation of £30,000 profits took place in 1873, which the workers regarded as depriving them of £15,000 of their bonus.

When we realise that, in the first year of the scheme, the total share available for labour was only £1,800, and that, after the reservations just mentioned, it rose to £14,256 in 1873, the difficulties which confronted this scheme seem obvious. A copartnership or profit-sharing scheme will find its greatest success where profits follow a steady course. Where they are naturally subject to fluctuation, the methods for adjustment should be strictly defined.

The second cause of failure was the trade union *impasse*. It would appear that the employers hoped, by means of the scheme, to eliminate the trade union. Similarly, the trade union put every difficulty in the way of its successful operation.[1]

§ 7. Modern Developments

The Royal Commission on Trades Unions (1868), after careful consideration of the Briggs plan,

[1] See *Industrial Partnerships*, p. 106, H. C. Briggs; Board of Trade Report, 1920; *History of Co-operation*, ii, p. 277, G. J. Holyoake (1875).

made no recommendations, and the failure of this and of other contemporary schemes [1] was for many years regarded as having settled the fate of profit-sharing in this country.

The Trade Union Act followed the report of this Royal Commission in 1871, from which year the modern trade union movement may be said to date.

Illegal under the Combination Acts till 1825, the trade unions waxed and waned in numbers till the fifties—Owen's trade union of half a million members has already been noted—and their aims and objectives were constantly changing and always vague and incoherent. They represented, indeed, the inarticulate voice of labour, under the yoke of the Industrial Revolution.

The Amalgamated Society of Engineers, the doyen and model of modern trade unions, was founded in 1850, being a combination of seven smaller bodies.

It is from this period that the method of collective bargaining, which is the solid basis of

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[1] Some eleven employers' profit-sharing schemes were started between 1866 and 1869. During 1870–74, several employees' schemes, especially in the engineering trade, were started, and in these the trade unions invested considerable sums. They were all abandoned.

trade unionism, dates back. The Trades Union Congress was established in 1864; the same year Karl Marx created the First International.

The English trade unions, during the sixties, devoted their efforts mainly to legal reforms. By 1874 they claimed to represent 1,190,000 workers.

At the date of the Briggs scheme (1865) trade union methods of collective bargaining certainly could not be said to have become established. Profit-sharing and copartnership were, therefore, looked upon as reasonable substitutes for collective bargaining. Trade unions had brought neither increased prosperity nor increased happiness to any worker. They could not even claim the ameliorative legislation which was gradually improving the workers' position.

At that time, indeed, "industrial partnership," developed on thorough and liberal lines, was a real substitute for trade unionism, which could have given the worker a status and a prosperity that fifty years of active trade unionism have not yet succeeded in creating. Had copartnership developed at that time, as Mill had predicted, as the first success of the Briggs scheme seemed to indicate, the industrial history of the last fifty years would have been very different.

While the Briggs shareholders were pronouncing the failure of "industrial partnership" after their nine years' experience, Godin at Guise was putting the finishing touches on his great scheme, which, as we have seen, first operated in the financial year 1879–80.

In England profit-sharing languished and copartnership was only a name till 1889, when Sir George Livesey initiated the South Metropolitan scheme.

A considerable impetus was thus given to profit-sharing, particularly during the years 1889–92.[1] The official report on profit-sharing and copartnership observes that the movement appears to progress by stages of maximum activity, followed by quiescence. The former seem to correspond with periods of good employment, and with periods of industrial unrest. Periods of bad employment, which are periods of poor profits or losses, naturally, are not favourable to the introduction of profit-sharing schemes.[2]

Thus, a period of activity was noted in the three years preceding the Great War; 1918–1920 furnished a similar phase.

[1] Some eighty-two profit-sharing (not copartnership) schemes were started during this period.

[2] Cmd. 544, p. 11.

The Taylor scheme was founded in 1896; Lever Brothers' scheme in 1909.

We complete this chapter with a brief reference to ancient profit-sharing. Jevons states that in the Middle Ages at Bruges and Ypres "the masters and servants in the woollen trade divided the profits according to a fixed scale." [1]

The metayer system in France and Italy, under which the peasant farmer pays as rent a proportion of the produce, dates back to the same period.

English trading to remote ports under a supercargo was a profit-sharing system in existence in the West African trade till recent years.

Cornish mining was for generations organised on a system of voluntary partnerships of miners and adventurers, arranged for regular short periods.

Deep-sea fishing is still worked on the same principle; for example, a half-and-half-sharing between the owner of the boat and the fishermen.

What would appear to be the earliest use of the word "copartnership" is in a book of 1671, *Uses and Customs of the Sea*, in which these practices are described.[2]

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[1] Quoting Brentano, *The State in Relation to Labour*, p. 147.

[2] Fawcett appears to have been the first economist to use the term "copartnership" in its present significance.

These instances serve, at least, to confirm the view that copartnership distribution is no artificial modern device, but a principle as old as, and indeed inherent in, man's great discovery of the division of labour and its application to social economy.

CHAPTER V

COPARTNERSHIP AND THE CONSUMER

§ 1. The Claims of the Consumer

IN all industry we are concerned with a process where labour is engaged in joint operation with capital, under the direction of management, producing goods and services for consumers. Omitting, for simplicity's sake, the functions of management, the process can be thus represented :

$$\overbrace{\text{Labour} \rightarrow \text{Capital}}^{\text{Producer}} \rightarrow \text{Consumer}$$

A surplus may be produced as the result of these operations.

In the clash of economic strife we find each one of the three elements a claimant for the surplus.

Marxian socialists claim the whole surplus for labour.

The capitalist system claims it for capital.

Co-operativism claims it for the consumer.

Copartnership, insisting on the joint nature of

production, claims it for the producer, in equitable sharing between capital and labour.

Co-operative copartnership limits the capital element to its interest and divides surplus between labour and consumer—the human elements concerned.

Another type of co-operative copartnership, attempting to be fair to all, divides the surplus amongst each of the three elements—labour, capital, consumer.

Save that no type is included, where capital and the consumer, disregarding labour, agree to share the surplus, each possible permutation is represented in actual methods at present in existence.

In reality this last, unrepresented type is the most common of all.

Producers bring their goods to market. Thereafter the mastery is with the consumer. Supply and demand, acting in complicated relations, fix the price which the producer obtains for his goods and services.

The market controls the price and the consumer controls the market.

Whatever surplus (if any) finally remains for the producer, it is what the consumer leaves him. This may be a perilously narrow margin. The American packing companies, for example, who

make no claims to be philanthropists, give considerable publicity to the statement that their surplus is less than 1% on turnover.

Under these circumstances there can be no further legitimate claim to any share of surplus by the consumer. Under a freely competitive system, he is organised to buy the producer's goods at the lowest price possible, regardless of their cost, and having thus squeezed the producer of all the surplus he can, he is entitled to no further share whatever.

Approach the subject from another angle. The surplus may be a negative quantity. The consumer may buy the goods at a price which leaves the producer with a loss. He neither can nor will share the loss. A claim on behalf of the consumer to share in positive surplus could only be considered in company with an agreement to share in negative surplus—which, we know, would be a nonsensical proposition.

We must, therefore, conclude that the doctrine of co-operativism, which is that the consumer alone is entitled to surplus, is false.

The co-operative dividend on purchases is in reality an extra dividend on capital. No one may receive it who is not an owner of capital in the co-operative concern. If the member's

capital holding and his purchases are in direct relationship to each other, his dividend on purchases is in exact proportion to his capital. If it is otherwise, he is a more-favoured or less-favoured recipient of dividend on capital, as the case may be.

The dividend on purchases is an ingenious selling device, which connects up the profits received with the immediate purchases, instead of the more remote and less tangible capital; provides an incentive to purchase as much as possible; and incidentally makes a big dividend on capital appear a much smaller, and therefore more respectable, dividend on purchases.

We admire the ingenuity of the device, but we reject entirely the consumer theory that has been built on it. We would add that the bulk of co-operators, so long as they receive good dividends, care little about the theory, which is, indeed, mainly the creation of intellectual patrons of the co-operative movement.

At the one end of the chain the consumer, at the other end labour: what becomes of labour's claims on the surplus, if we have already agreed that it is the consumer's?

The consumer's only interest would be to bleed the producer again and again. Capital would be

limited to its minimum interest, as in most co-operative concerns; labour would be limited to its minimum subsistence. The aspirations of labour are reduced to dead ashes, if a consumer's claim on surplus is admitted.

The co-operative societies themselves, in spite of the fact that the bulk of their members are of the working class, have only a fair reputation as employers of labour. Strikes and labour difficulties in their establishments have shown that the consumer theory brings no solution of labour problems, which are producer problems.

It may, however, be urged that, since under co-operativism producer and consumer are one and the same, what helps the one must therefore help the other.

In the first place, it may be remarked that it helps neither if what one receives the other loses.

In the second place, it could only be true if every co-operative producer were able to regulate the whole of his consumption co-operatively.

In the third place, even then, the surplus earned by the joint producers, being distributed amongst the consumers, in so far as any proportion of the latter were non-co-operative producers, the share of surplus earned by the co-operative producer would be diluted when it reached him, as a co-

operative consumer, in the form of dividend on purchases.

In 1918 there were engaged :

	Persons.
In co-operative production	62,401
In co-operative distribution	101,982
	164,383
The total number of co-operative consumers was estimated at	2,854,584 [1]

Thus, nearly three million people share in the surplus on goods, partly produced and entirely distributed by the efforts of 164,383 workers, in conjunction with the other elements of management and capital.

If labour were granted a share in the surplus along copartnership lines, this share would be divided amongst the 164,383 workers.

Under co-operativism labour is told it receives its share as a consumer ; but it is a share which has been divided over three million people, of whom 95% are non-producers, so far as the surplus divided is concerned.

The additional share—capital's portion—is also divided amongst the three millions, but, of course, the productive worker has no special claim on this portion of the surplus. Consider, again, the

[1] *The People's Year-Book*, pp. 79, 99, C.W.S., 1920.

consumer claim applied to the whole industry of the nation; the theory that, if the consumer has received all the surplus, the producer thereby indirectly receives his full share.

What would be the position with regard to export trade, where the consumers cannot possibly be identical with the producers?

And even if it were proved equitable, it is in practice impossible, under the existing organisation of industry, to pass a share of surplus to the ultimate consumer; for he has no direct connection with the producer, but is linked to him through confusing intermediaries.

In the cases where quasi-surplus, in the form of dividends on purchases, is distributed by productive industries, the customers are invariably distributive co-operative societies, who are organised to pass on such profits to their members. In the Thomson co-operative copartnership[1] it is significant that the co-operative societies receive dividends on purchases, but outside buyers do not.

The one exception is the American scheme of Nelson,[2] and here the customers are almost entirely plumbers and builders—that is, direct consumers of the goods. The scheme may be an excellent plan for consolidating the Nelson

[1] P. 209. [2] P. 210

business; it makes no new contribution to the solution of the industrial problem.

If competition is not free, the consumer may not be in the advantageous position which we have here assigned to him. The joint producers —labour and capital—might conceivably, under such circumstances, use their copartnership to exploit the consumer. The contingency does not appear to be of immediate interest. Should it arise it would be necessary for the State to step in and provide, by its investigation and control, substitutes for the natural protection which the consumer enjoys under the existing system of free competition.[1]

§ 2. Copartnership Associations of Workers

Of the numerous productive associations of working men, formed on the self-governing workshop model in the sixties and seventies, only a handful survive.

The most notable is the Walsall Lock and Cart Gear, Ltd., created by workers themselves, within a sweated industry, and dating back to 1873. This association sells its goods in the open home and export market, and has no connection with

[1] Cp. p. 274.

co-operative societies. The committee men and directors are all employees. In 1920 the total turnover was £118,855, and the profit £4,816, which was divided as follows:

	£
5% interest on £21,300 capital	1,056
Additional dividend to shareholders, making total dividend 5½%	105
Dividend on wages at 9*d.* in the £ . . .	1,950
Educational and Provident Funds . . .	460
Reserve	1,000
Balance	245
	4,816

The dividend on wages is paid half in cash, half in shares. This society furnishes a perfect example of "labour copartnership," as extolled by Mill and Mazzini.

And, it must be added, almost a solitary example in this country. On the other hand, a number of similar associations, with a co-operative basis or connection, still exist, the oldest dating back to 1860.

These co-operative productive associations owe their origin mainly to the advocacy of Vansittart Neale, Tom Hughes, and other leaders of the old Society for promoting Working Men's Associations.[1] Other prominent names are those

[1] P. 176.

of G. J. Holyoake and E. O. Greening, the veteran of copartnership.

In spite of the failure of the self-governing workshops, Neale continued his advocacy of copartnership methods. At the Derby Co-operative Congress, in 1884, he initiated the Labour Association "for promoting co-operative production based on the copartnership of the workers." Neale believed that by this means there would result "the complete self-employment and self-government of labour."

In 1920 [1] there existed some 72 associations, of which 67 made returns to the Ministry of Labour.

Their membership (shareholders) was 25,819, and their total capital, apart from reserves, was £967,206.

The sales amounted to £3,654,258, the profits to over £300,000. The main branches of production, in which the societies are engaged, are textiles, boots and shoes, and printing. Of the total share and loan capital, 35·3% was held by co-operative societies; 8·1% was bank and other loans; 38·4% was held by individual members—that is, ordinary small capitalists—and only 18·2% by employees. About 68% of the employees are shareholders.

[1] *Labour Gazette*, November 1920.

In most of the societies a dividend on purchases, on the usual co-operative plan, is paid.

The surplus in some societies goes to the shareholders, as additional dividend; in others it is divided between the shareholders and the employees. Of the 72 societies, rather more than half, 44, share profits with employees, the average bonus on wages in 1918 being 8·2 per cent. In a few cases there is true copartnership, the employees' dividend being payable in shares. The employees' dividend, where paid, is usually at the same rate as the dividend on purchases. The Co-operative Printing Society, Ltd., for example, after payment of interest at 5% per annum, distributes the surplus at the same rate of dividend over wages, purchases, and capital. The bonus on wages has recently averaged 3%.

As regards self-government, here again there is much diversity. In seventeen societies, with 31·5% of the total sales, employees have no status on the managing committee. Only in twenty-three societies, with 42·7% of the total sales, do employees form a majority on the managing committee. Sixteen of these societies are in the boot and shoe trade in the Kettering and Northampton district, where this type of co-operative production has flourished for many years.

There are also in the United Kingdom about four hundred agricultural productive societies formed on similar lines, some of them on a profit-sharing basis.

A recent application of profit-sharing to agriculture may here be noted.

In the experimental schemes of the Board of Agriculture, at their farm settlements for ex-service men, after payment of all expenses and 20% to reserve, the surplus is to be divided amongst capital, management, and labour, in proportion to the amounts that have been paid out to them in the "Working Account."

Settlers may invest their dividends or other moneys in the working capital, receiving 5% interest and share of profits. A settler's share may not be sold, except to the Board of Agriculture, who will purchase at par. The initial result of this State-aided experiment is not encouraging, a heavy loss having been incurred.[1]

The story of the Hebden Bridge Society is typical of the origins of the productive associations.[2]

It issued out of the local co-operative society,

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[1] Cmd. 1184 (1921).

[2] *Labour Copartnership*, p. 166, H. D. Lloyd, London and New York, 1898; *Story of the Formation of the Hebden Bridge Fustian Manufacturing Society*, Joseph Greenwood.

whose stalwarts were inspired with the idea of co-operative production by Vansittart Neale, at the second Co-operative Congress in Manchester, 1870.

"We were poor men," says the founder, "with the exception of two of our number, none of us owned as much as a five-pound note. We, nevertheless, put our threepences together week after week until we got about ten pounds."

Like their French predecessors, they took no pay at the start. They worked for two years in evenings after the ordinary day's work was over.

At the end of the second half-year's full working the managing committee recommended a 5% dividend to labour. This aroused "stiff opposition from some friends whom we had taken into membership who were not with us when we started."

The capitalist element continued to be a difficulty. As profits increased the shareholders grew greedy for dividends. Outside speculators bought employees' shares, and, obtaining control of the committee, endeavoured to eliminate the dividend on wages. A stormy meeting ensued, but the position was saved.

The Hebden Bridge Society has now been taken

over by the Co-operative Wholesale Society, and its career as a copartnership is presumably ended.

The number of the co-operative copartnerships has declined considerably during the last ten years. In several cases they have been absorbed by the Co-operative Wholesale Society, the policy of which is opposed to profit-sharing and co-partnership methods.

The antinomy is historical, and belongs to the early days of co-operative production. Several of the existing associations were formed in opposition to the co-operative capitalist enterprises. The Equity Shoe Works at Leicester, for instance, was started by workers who withdrew from the C.W.S. Wheatsheaf Works in 1886. The quarrel at Leicester goes back to 1873, when the employees in the new C.W.S. works put forward a demand to "have a right to invest their savings in the concern and have votes in its management"[1]—a demand for copartnership in fact.

In the same year the Co-operative Union had been definitely organised at Newcastle, under the auspices of the Christian Socialists, with the avowed object of grafting profit-sharing and co-partnership methods on the co-operative system,

[1] *Labour Copartnership*, p. 105, H. D. Lloyd.

which was then entering on its programme of productive enterprise, through the English C.W.S., founded eleven years previously.

In accordance with this policy, a profit-sharing plan was initiated, both in the productive and distributive branches of the Wholesale Society, based partly on profits, partly on sales.

In 1876 the bonus was discontinued. In 1882 a departmental bonus system was started; in 1886 this also was abandoned.

At the Carlisle Congress in 1887, Judge Hughes claimed the self-governing and profit-sharing workshop as a cardinal doctrine of co-operation.

The principle was reasserted at Dewsbury in the following year.

The officialdom of the C.W.S., to whom profit-sharing had never been acceptable, ignored the congress resolutions, and have continued to maintain their enterprises on a non-sharing basis.

The Scottish Wholesale Society took up profit-sharing in a more whole-hearted manner. It commenced in 1870 with a bonus on wages, at double the rate of the dividend on purchases. After several changes, this was altered in 1892 to a bonus at the same rate as dividends on purchases, and the profit-sharing was converted

into a quasi-copartnership by the retention of one-half of the bonus in a Bonus Loan Fund, carrying interest at 4% per annum.

The bonus averaged 8*d.* in the £ on wages, and up to 9,000 employees shared in it.

The scheme was abandoned in 1914, the reasons officially given for the abandonment of the profit-sharing being as follows:

". . . The payment was inequitable, in so far that it did not apply generally to the employees in retail societies . . . therefore the latter societies considered it wrong in principle; further, that the aims and objects of co-operation were payment to the workers of trade union rate of wages, the best possible conditions of labour, and as large a share of profits to all the members as was compatible with market prices, in which all could participate through the ordinary channel of membership in a retail co-operative society, and any deviation from which, it was contended, was preferential treatment and a departure from the principles and purposes of the movement. It was argued further . . . that the C.W.S. in England did not pay bonus to their workers."[1]

In one respect the employee of the Scottish

[1] Cmd. 544, p. 130.

Society retains a copartnership privilege: he may become a limited shareholder, which is not permissible in the English Society.

The *non sequiturs* with which the Scottish Society joined their English colleagues in side-tracking copartnership, regardless of the tradition of the elders, are not surprising after our previous examination of the consumer theory of co-operation.

Of the retail distributive societies, 109 out of 976 societies with productive departments (such as bakeries) continue to give a share of profits to employees in these departments, usually at the same rate on wages as the dividend declared on purchases.[1]

The fallacy that productive employees may share profits, while distributive employees may not, runs through all the past controversies between the " individualists " and the " federalists " in the co-operative movement.

Outside the associations already described, should be noted a number of old-established consumers' productive concerns, mainly engaged in flour-milling and baking. Some of these have shared profits from the outset, and continue to do

[1] *Board of Trade Report on Co-operative Societies*, etc., p. xxii, 1912, Cmd. 6045.

so. The United Baking Society of Glasgow[1] during the last fifty years has distributed £163,811 to employees. Since 1893 they have been able to invest their dividends through a Bonus Investment Society, which collectively owns 10% of the share capital.

Thus, while co-operativism and copartnership had their origin in the same ferment of social reform, their paths have long diverged.

The co-operative movement is essentially a capitalistic enterprise. The Co-operative Wholesale Societies, with their production of £24,000,000 and their sales of £75,000,000, form a close capitalist corporation, aiming at a benevolent monopoly. The employees in the co-operative firms, whether distributive, extractive, or manufacturing, retail or wholesale, are employed on precisely the same basis as workers in any other capitalist enterprise.

The development of co-operation, unless it is accompanied by new relationships with employees, can never raise the worker above the status of wage-earner.

As for the associations, their sphere seems limited to small-scale industries, and especially to those which demand personal skill and technique.

[1] Capital, £679,000 ; 1,571 employees.

In this direction, and in agriculture, if founded and conducted on prudent lines, they offer many possibilities of progress in the future.

There is no reason why such associations should not be as successful in this country as in France, where about seven hundred *associations ouvrières de production* flourish, with a capital of over one million sterling and a turnover of over four millions.

Their greatest difficulty will be the disposal of their products. This problem is ready solved for the co-operative productive enterprise, but further developments of associations in this sphere are unlikely. More probably, many of the existing co-operative associations will be absorbed by the giant Wholesale Society, which has no place for copartnership in its philosophy.

The co-operative productive societies have recently grouped themselves in a Co-operative Productive Federation for propaganda and other joint purposes. Neale's Labour Association of 1884 is now the Labour Copartnership Association, the object of which is "to bring about an organisation of industry based upon the principle of Labour Copartnership—that is to say, a system in which all those engaged shall share in the profits, control, and responsibility."

The development of copartnership in this country owes much to the unselfish efforts of this association. In France La Société pour l'Étude Pratique de la Participation aux Bénéfices, dating back to 1879, fills a similar function. The American Association for the Promotion of Profit-sharing was founded in 1892.

In concluding this description, reference may be made to the interesting experiments of the Guilds of Builders now in progress. These are associations of working men in the building trade, formed to execute contracts for housing under the Government scheme. Similar associations for contract work have existed in Italy (societe di lavoro), and in France for many years.

At a conference (March, 1920) to form a Guild of Builders, the association pledged itself:

> "To use all means in its power, consistent with the rules of trade unions, to bring about such a change in the spirit and organisation of the [building] industry that the end of the wage system can be secured, and the principles of self-government established."

The turn of the wheel brings us back to Louis Blanc, the Christian Socialists, Hebden Bridge.

A number of guilds have been formed and are

in operation. Their members are guaranteed against loss of time through sickness, accident, or stress of weather. The directors are mainly chosen from the rank and file. If a surplus is produced, it is not to be distributed as dividends, but used for "improvement of the service."

§ 3. Co-operative Copartnerships

Under this heading we describe two interesting copartnerships. The first, an English example, furnishes a case of an ordinary business, converted into a copartnership, with the addition of dividend on purchases; the second is an American business, also sharing its surplus, not only amongst the joint producers, but including also the consumers.

The business of Wm. Thomson & Sons, Ltd.,[1] was converted into a society, registered under the Industrial and Provident Societies Acts, in 1886. The dividend on shares is limited to 5% (6% on new capital). After provisions for reserve and an Assurance and Pension Fund (1% to 5%, varying with net profits) the surplus is divided, one-half to employees as a dividend on wages, the other half to the co-operative societies as a dividend on purchases. On several occasions

[1] Woollen manufacturers; Woodhouse Mills, Huddersfield; about 300 employees.

when the profits have been insufficient to pay the dividend on capital, the employees have voluntarily made good the deficiency out of their wages. The average addition to wages has been 6%, about one quarter of the total net profits thus accruing to the employees.

N. O. Nelson Manufacturing Co.[1] was founded by N. O. Nelson, a Norwegian immigrant, and the copartnership dates back to 1886. For some years 4% to 10% on wages was distributed. During the years 1895–1903 payments were suspended, owing to bad trade. Since 1905 the customers have shared in the distribution.

After payment of 6% interest on capital and reservations, the surplus is distributed in equal proportions to employees on pay-roll, and to customers on the gross profits from their purchases. Capital receives no further share beyond its interest

The dividend is paid, in accordance with copartnership practice, in common stock of the company, which is thus disposed of by the founder and original owner.

Purchases amounting to less than $100 within the year are not counted.

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[1] Manufacturers of plumbers' goods and sanitary ware, St. Louis, Missouri; 1,200 employees; nominal capital, $1,153,600.

In recent years the dividend on wages has fluctuated between 30% and 50%. Of 1,200 employees, 800 are stockholders and own about $400,000.

There is no restriction on the amount of stock which may be held. Shares may not be disposed of while the holder is employed by the Company. Up to 50% in cash will be loaned to employees on their shares in case of emergency. Shares may be retained when employees leave: since they bear only simple interest, no special arrangements are necessary, as is usually the case in a copartnership business.[1]

This scheme is probably the most liberal in existence. Its method of extension to the consumer is, however, not generally practicable.[2]

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[1] *Profit-sharing*, pp. 208, 211, etc., A. W. Burritt and others, New York, 1918; also *U.S. Report*, p. 45.

[2] The dividend to customers has now been withdrawn. In a communication of Aug. 3, 1921, the President of the Company explains that this became necessary because (1) customers retired, while still holding the stock, and could no longer be interested; (2) competitors regarded the distribution of stock to customers as a rebate on purchases, against which they offered corresponding cash allowances.

CHAPTER VI

PROGRESSIVE COPARTNERSHIP

§ 1. A Copartnership Profit and Loss Account

IT is an acid test of any proposed industrial policy to examine its attitude to a disability of the worker, which stands out in its naked reality, patent to all.

In spite of all our ameliorative reforms, and the growth of national wealth in our modern industrial societies, the worker has no security of tenure.

This is no disability thrust on him by the tyrannical capitalist. As human beings, insecurity pursues us all our lives. Whether our most important possession is our physical strength, our mental power, or our capital, insecurity is our constant shadow.

The claim to security, which is the human claim to have the means of subsistence—which, translated into terms of industry, is the "right to work"—is ethically undeniable.

Is it economically possible?

The industrial State has here a heavy responsibility. It has first allowed men—*laissez faire*—and then compelled them, through the generations, to fling aside their individual, self-contained methods of existence, and to mix in mutual associations.

Should not the State, then, guarantee to every man, thus willy-nilly absorbed into the collective system, that subsistence which, if we returned to self-centred individualism, each man would produce for himself and his family in wild and selfish fashion?

This is, of course, only to restate the ethical claim. The economic side comes down to hard matter of figures.

The national income of the United Kingdom for 1913–14, the last pre-war year, according to the best available estimates, was £2,250,000,000.

If we deduct, say, £250,000,000 for rates and taxes, and £230,000,000 for new investments, we have a residuum which, if it could have been divided up equally with no diminution in the process, would yield an income of £162 per annum, or 62*s.* 4*d.* per week, to each average family of 4½ persons.[1] After applying high explosives to

[1] *The Division of the Product of Industry*, p. 20, A. L. Bowley, 1919; *Economics of Welfare*, p. 792, A. C. Pigou, 1920. Sir J. C.

some thousands of millions of national wealth, the real available income per head has certainly not been increased as the result of the process.

By "equal division of unequal earnings" it will thus be seen that a pre-war wage per family (including on the average $1\frac{1}{2}$ workers) of, say, £3 a week, could possibly have been paid.

But some grading—some extra payment for skill, responsibility, and risk—would be necessary under the most mechanical communism. Moreover, it is impossible to estimate the loss of income which would follow such division; certainly it would be considerable.

Sir J. C. Stamp, in his latest inquiry,[1] estimates the increased amount, which could have been added to pre-war incomes under £250 a year, at about £14 a year for each family. In succeeding years, he supposes, the addition would be much smaller, "probably not more than £5 or £6 per family per annum."

A council of dictators, entrusted with the task of guaranteeing to every acceptable citizen Mr. Rowntree's pre-war minimum standard of 35*s.* 3*d.*

Stamp (*Statistical Journal*, July, 1919) estimates the pre-war income per head, before the deductions mentioned, at £50 per annum. Professor Smart (*Distribution of Income*, p. 99, 1912) arrives at 17*s.* $1\frac{1}{2}$*d.* per head per week.

[1] University College, London, January, 1921.

a week,[1] even with full powers to maintain the *status quo* of wealth production, would have had its hands full.

The truth is, we live as a nation perilously near the subsistence level, in spite of much that seems to the contrary.

To guarantee subsistence to every acceptable citizen is thus, economically, no more than barely possible at the stage of productivity now existing.

Assuming, however, that such guarantee is possible, let us now see what light the theory of copartnership can bring to bear on the subject of insecurity.

With this object in view, we will pursue a little further the parallelism between human capital and material capital, which was the subject of previous discussion.[2]

We then suggested that it is the application of human capital to material capital, under capable organisation and management, which produces

[1] *The Human Needs of Labour*, p. 129, B. S. Rowntree, 1918. This minimum standard must not be confused with the basic or subsistence wage of earlier chapters. Mr. Rowntree estimates this at the pre-war figure of 26*s*. a week (*Capital and Labour after the War*, p. 234, 1918).

Note that this is about 75% of the minimum standard, the same ratio, in fact, which we suggested in Chapter I for converting actual earnings into basic wages.

[2] P. 28.

the surplus which we divide, under copartnership, between the two forms of capital described.

Now, the gross earnings of material capital are subject to necessary diminutions before they can be distributed. Not only must all the expenses of the business be provided, but, in addition, allowance must be made for depreciation of stock and depreciation of fixed capital, these being prior charges on the business.

If a business did not provide annually for depreciation of fixed capital—machinery, buildings, and the like it is obvious that in the course of years the whole capital invested in industry would be wiped out of existence. Repairs to fixed capital constitute an expense of the same order.

In precisely the same way, human capital is also subject to decay.

Being human, it is therefore mortal. In rendering its services it gives up successive tithes of its life. It is subject to infirmities and accidents.

Hence emerges the suggestion that a complete profit and loss account, based on the joint earnings of human and material capital in copartnership, would provide, corresponding to the charges for repairs of material capital, a reserve for illness and invalidity—the repairs account of human capital; corresponding to depreciation of material

capital, a reserve for old age—a human obsolescence account.

These provisions seem to be a logical conclusion from our theory of human capital.

Though they do not form essentials of elementary copartnership, they are of the true spirit of copartnership. In almost every case of existing copartnerships and profit-sharings, some form of sickness benefit and pension provision also exists, either as a separate scheme or, in some cases, as a part of the copartnership or profit-sharing.

In the small-scale copartnerships, the associations of workers previously described,[1] a large proportion of surplus is usually devoted to provident funds of this nature. They figure largely in the French profit-sharings, and in the copartnerships of Godin and Leclaire receive a considerable share of the profits. A favourite and excellent plan is to earmark the share of the undistributed surplus (nominal sharings of casual workers, workers not qualified by age or service, etc.) to these funds.

These provisions are, of course, additional to existing state benefits, and in the case of many schemes, were long ahead of the state provision in point of time.

[1] P. 196.

Under the scientific method proposed, the allocations would be at a definite rate per cent. on the human capital employed (or whatever equivalent figure is used for arriving at the copartnership division) based on actuarial calculations.

Again, no feature is so constant in modern industry as the fluctuation both of volume of business and of earnings.

In a well-organised business the provision of a reserve fund for dividend equalisation is a necessary device. In a copartnership business such reserves are particularly important. Copartnership dividends subject to great fluctuation are not at all desirable. They would develop copartnership too much on the selfish side. As we have said, the copartnership dividend should be a secondary feature. The emphasis should be on the word "copartnership," never on the word "dividend."

Copartners become demoralised as the result of very high dividends; disappointed if none are available. Apart entirely from conservative reasons of accountancy, it is therefore important that the dividend in a copartnership business should be equalised as far as possible, and that suitable reserve funds should be built up, in the

disposition of which the copartners must take their proper share.

Now let us follow once more our parallelism between the two forms of capital.

We appropriate from profits sums to reserve, for the protection of the earnings of capital in difficult times—times when, indeed, the capital may be unemployed;—are we not logically led to make similar provision for human capital, whereby it may be likewise protected during unemployment, the worker's rainy day ?

Such a reserve would again be based on the conventional value of the human capital employed in the business.

Total Product

Material Capital	Human Capital
1. Simple interest.	1. Minimum wages.
2. Reserve for depreciation.	2. Reserve for old age.
3. Reserve for repairs.	3. Reserve for sickness.
4. Reserve for equalisation of dividends.	4. Reserve for unemployment.
5. Extra dividend on capital.	5. Copartnership dividend.

Along these lines (which are practicable in any business, whether working on copartnership lines or not) we solve the problem of insecurity, by making suitable provision for the reserve of labour.

The capitalist system has suffered much ignominy for its failure to maintain the reserve of labour. Like many general charges against the system, this one is undeserved.

The astonishing thing is that the capitalist system has been able to keep pace in the provision of employment for the continuous growth of population: a growth from six millions in 1700 to forty-eight millions to-day. If ignominy attaches, it is to a State which has never dealt with unemployment, except as a malady of industry, and has never applied other than palliative methods of treatment.

Of the trade unions, as of the capitalists, it can be said that they have done their best; but trade union efforts to keep down the reserve of labour have probably in the end resulted in the exact opposite.

The trade union devices against unemployment —restriction of output, rules concerning apprenticeship, demarcation, limitation of youthful labour, exclusion of women, objections to overtime, objections to long tenure agreement—probably destroy every year increased productivity more than sufficient to provide full insurance funds for unemployment.

Under copartnership, extended to include the

reserves for protection of human capital, which we have outlined, the disabilities, which these trade union devices attempt to lessen, would already be provided for.

For this reason, apart from all other considerations, restriction of output and other trade union restraints ought to have no existence in a business working on progressive copartnership lines.

To lay the ghostly shadow of insecurity would be to bring the greatest human blessing which the worker has received since he emerged from serfdom.

That a simple plan for ensuring security has followed, as a logical deduction from our theory of copartnership, encourages us in acceptance of the general scheme of distribution which it involves.

§ 2. Control and Status under Copartners

The question must now be discussed : What is the attitude of copartnership towards the demand —various in its forms, often artificial, but certainly not negligible—put forward on behalf of labour for a greater share in the control of industry, the demand for " the self-determination of industry " ?

First, let us state the measure of control, which labour already possesses.

It has political equality, and power through democratic government to control industry by state action. A crowded statute-book shows that this control has been continuously exercised during the last fifty years.

Through collective bargaining by trade unions, directly, as well as through the machinery of existing state organisations,[1] it has conjoint control of wages.

Again, through trade unions, labour has a major measure of control over hours of labour, overtime, night work, holidays, seasonal disturbances, and other conditions of labour.

As to internal control, the trade unions, in all organised industries, hold in check the rate of individual production, and in the skilled trades, they practically control the numbers of those engaged in them.

They maintain a legal right to strike and to sympathetic action or inaction during strikes, and here again labour, through its trade unions, is paramount.

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[1] Sixty-one Trade Boards, seventy-five Industrial Councils, Industrial Court, judicial inquiries, Conciliation Boards, Arbitration Boards.

The powers of control possessed by labour are thus seen to be considerable, and it is idle to deny that many people believe these powers to be excessive. In particular, the right to strike is anti-social and indefensible in a true democracy.

Now, with equal frankness, let us examine in what directions labour does *not* possess control in industry.

In an individualistic industrial State the power resides outside labour (subject always to state restrictions) to control:

(1) What shall be produced.

(2) In what quantity it shall be produced.

(3) Subject to labour controls above mentioned, the method of production, including the conditions.

(4) The financing of the business.

(5) The buying of raw materials and other requirements.

(6) The choice of personnel.

(7) The selling of the finished product.

Of these controls some, if not all, are at once seen to be specialised jobs, for which the highest type of employee, management, is required. They involve special capacity, education and experience, without which the operations cannot be performed.

We have, then, analysed the items of control to find that they correspond with the division of business organisation into management and rank and file, officers and men.

The rank and responsibility of an officer is superior to that of a private. This difference of rank and responsibility, arising from function, seems inevitable in any system of organisation which we can envisage. Organisation implies discipline, and discipline implies commanders and commanded—if you like, employers and employed.

This seems simple enough. The control is with the officers of industry. The majority of human beings are in the ranks of the controlled, and have no desire for promotion.

To get at the roots of this question we must delve a little deeper. Above and behind the officers, the rank and file regards "capital" as the real controller of industry. Unseen but powerful, impersonal and relentless, capital lurks always in the background.

Between the man of rank and file and this mysterious tyranny the wages system provides the only link of connection.

Since wages are based on no rational method of division, it seems to the man of rank and file turned *philosophe* that wages are just what the

capitalist cares to throw to him, as largesse out of the spoils of industry.

Thus the worker can be portrayed as a suppliant at the capitalist's gate, condemned to a lifelong sense of exploitation.

We do not agree that this is a true picture of the worker's position. But it is an accurate representation of the psychology of the worker, confronted, as he constantly is, with the autocracy of capital, real or imaginary.

This state of affairs would disappear entirely under widespread copartnership. The status of the worker would become equal to that of the owner of capital. Wages would become nominal payments, possibly they would disappear; and with them "wage-slavery."

Under such a system the worker's rank in the industrial army would be that of his "function" —copartnership has no equalitarian ideas—but, whether unskilled labourer, skilled mechanician, foreman, clerk, manager, salesman, whatever his "function," he would possess the status of ownership.

A sense of ownership and the feeling of responsibility and security that ownership brings, that is the status for which, inarticulately enough, labour is crying.

Copartnership is the only peaceful and proved method, by which workers may obtain such ownership and thereby such measure of control of industry as their degree of ownership may justify.

Away back in the Christian Socialists' workshops we found that control, without share in ownership, proved a fiasco, and it would not be otherwise to-day.

With regard to those functions which we assigned to management, such as finance, buying, selling, these are specialised operations, which are entirely the concern of specialists.

A democratic copartnership will, none the less, take its copartners into its confidence on these subjects. As joint owners of the business, they are entitled to some measure of consultation. In an ordinary business it is practically impossible to take workers into the confidence of management; in a progressive copartnership it is both possible and desirable, and many misunderstandings can be prevented when the policy of the business, in these important directions, is understood by the employees. If, as democratic methods developed, this led to constructive criticism, put forward in the true spirit of copartnership, so much the better for the business.

In matters of basic policy—what shall be

produced, in what quantity, by what methods—a progressive copartnership will also bring its copartners into consultation.

The second item is of undoubted interest to enlightened employees, for it links up with the rate of output required, the volume of employment, and other matters in which they are directly involved.

The co-ordinating body, between rank and file, copartners and management copartners, is found in the Copartners' Council, a joint body, which again would work through departmental and other committees.

Copartnership can claim to have pioneered the works councils and works committees, which form part of the joint organisation of industry initiated by the Whitley Committee. In every copartnership scheme it was necessary to form committees to deal with the details of the distribution. These have gradually acquired many other functions, and works councils and committees find in a copartnership business their ideal setting.

The third item of control above mentioned—the method of production, including the conditions, is the item which would provide their main function for the Copartners' Council and committees. In respect of the other items mentioned,

they would be merely consultative—the connecting link between management and rank and file—the vehicle for conveying the points of view of the one to the other. But, in respect of the method of production and the conditions surrounding production, the Copartners' Council would receive executive powers.

These powers would include the regulation of hours of work, including overtime and holidays, disciplinary measures, timekeeping, shop rules; all matters of welfare, safety, sanitation; court of appeal for dismissed men, adjustment and working of piece rates.

In addition, the organisation of the copartnership distribution will bring to the Council and its committees numerous consultative and executive duties.

Such measures of joint control must lead inevitably to the substitution of co-operative plans for increased production by copartners, replacing the present reactionary methods of shop control—defensive methods, the outcome of a system where labour faces capital as an enemy—no longer requisite in a true copartnership.

The development of these functions must be progressive. Even Mr. Cole agrees that "before

labour can control it must learn how to control." [1] Progressive copartnership develops to the ideal, as copartners learn to assume their responsibilities. Little sign exists to-day of any desire on the part of workers to assume responsibility; but what incentive has the worker to develop in this direction? Copartnership, with its status of ownership, its new spirit, creates that incentive, and will develop powers now latent, lost, or neglected.

Nor can these developments imply any weakening of the authority of management, or of their control of, and responsibility for, their specialised jobs. An autocratic management is inconsistent with copartnership, but "employers do not give up their common sense or their rights, because they become profit-sharers or set up labour copartnership." [2]

Leclaire had no false conceptions about control. "I think," he said to his employees at the outset of the copartnership, "no one will imagine that on the day when the association is established everybody will be free to do as he pleases. No, gentlemen, it can never at any time be thus. . . . I am the master of my own business." [3]

[1] *Self-government in Industry*, p. 169.
[2] Mr. T. C. Taylor.
[3] Quoted in *Copartnership in Industry*, p. 65, C. R. Fay.

None the less, as the copartnership developed, Leclaire was able to entrust the choice of the managing director to the copartners—an arrangement existing to this day. This, and other control assigned to the copartners, resides with the *noyau* of picked men.

In the same way Godin divided his employees into three classes. Only the first class, the *associés*, share in control. They form the General Assembly, which elects the Council of Management and the managing director, who together exercise joint control.

In Taylors' scheme the B shares, owned by the copartners, possess no voting powers; but it is understood that A shares are being gradually transferred to the management, in whom will thus be vested the final control.

This is an excellent plan, and probably represents the furthest point to which we can go, in the direction of conveying controlling capital to non-managing copartners, to-day. We must progress by sure steps.

An early copartnership experiment in Switzerland came to grief over control. This was the firm of Billon and Isaac, Geneva (1871), who divided the surplus equally with capital and labour, labour's dividend being paid in shares.

The dividend fluctuated considerably, sometimes as high as 28%, sometimes nil. The commercial situation became difficult, and the workers disagreed with the management and impeded the administration of the business. "The ultimate opinion of M. Billon was, that in all efforts to promote profit-sharing, it should be taken as an absolute rule that no shares giving the staff a right to influence the management of affairs should be permissible."[1]

In a copartnership the path from the rank and file to the management should be made easy. Promotion from the ranks should be the rule.

Abolition of purchase in the industrial army is long overdue. Management of the future must be less of a closed hierarchy than it is to-day.

Rights imply duties: if the management is to receive this constant accession from below, rank and file must needs be willing to put forth greater efforts and to make greater sacrifices than has hitherto been the case.

A management liable to criticism from its labour copartners—recruited as far as possible from amongst them—with no control of capital other than they have acquired through their common copartnership, but with final authority

[1] Cmd. 7283, p. 77.

in all matters entrusted to them—this seems the practical ideal for copartnership organisation.

In an established copartnership there is one case in which the choice of management may well be delegated to the managed, acting through the Joint Council, namely, the choice of foremen and possibly other junior management.

In more than one existing copartnership directors representing the rank and file copartners have been appointed to the board.[1]

These experiments appear to have been successful, and the advantages of directors on a board, in an advisory capacity, who can truly represent the views of the rank and file, may be considerable. Such directors are not managing directors, and can take no part in the management. To be a manager, and at the same time a member of the rank and file, is a contradiction in terms. Since the advisory element is being gradually eliminated in modern boards of directors, the inclusion of rank-and-file directors is not likely to be usual in future copartnerships, and it is quite possible that the director would cease to be representa-

[1] South Metropolitan Gas Company; South Suburban Gas Company; Procter and Gamble Co., Cincinnati; Boston Gas Company (U.S.A.); N. O. Nelson Manufacturing Co., St. Louis. Cp. also Godin and Leclaire.

tive and would lose touch, as is the case with government officials chosen from labour, and to some extent with all trade union officials.

The system of councils and committees, elected by the rank-and-file copartners, co-ordinated with the board of management through their respective chairmen, seems a more practical, though less heroic, plan.

All this sharing in control we look for under progressive copartnership. It can only come by degrees; but the degrees need not be slow, any more than the acquisition of capital is slow, once a copartnership has got to work.

What we fear most is that progress will be slower than copartnership advocates would like, not because of difficulties from employers—the employer who is prepared to make the unselfish deal, which the first step in copartnership entails, is hardly likely to put obstacles in the path—but from employees unwilling to take advantage of the opportunities provided.

In this, as in other directions, progressive copartnership cannot be developed, unless accompanied by constant educational work and publicity amongst copartners, at the same time reinforced by the sincere sympathy and co-operation of management.

§ 3. Copartnership and Trade Unionism

Copartnership has not suffered for lack of critics. For one thing, it asks employers to make sacrifices. For another, it stands for the freedom of individual enterprise and private ownership of capital. Socialists of various shades, united in their aim to abolish individual enterprise and ownership, cannot be expected to give it any warmer welcome than hidebound employers.

Is copartnership, then, no more than a compromise between two diametrically opposed systems of industrial organisation and subject to the fate of compromises, kicks from both sides?

We have failed in our synthesis, if we have produced such an impression.

In a manifesto issued on behalf of the National Guilds, "Is there any objection to profit-sharing and collective partnership?" the answer is given: "Yes, for every man so singled out is spiritually transferred from the side of labour to the side of capital. His concern is no longer to abolish the wage system for himself, his fellows, and the nation at large, but to obtain all the profits he can from it." [1]

[1] *The Meaning of National Guilds*, p. 295, Bechhofer and Reckitt.

Socialists of every hue are afraid of copartnership. Their apprehensions are its best recommendations. Mr. Cole is pursued by " the fear of profit-sharing establishing a common solidarity between labour and capitalism." [1] As the first weakness of copartnership he notes its aim of social peace, and social peace is precisely what the labour doctrinaires do not desire.

They are like a nation that has been preparing war for years; anybody who comes along with a rescript is a nuisance. They are for war at any price. At the dictates of the militarists, the worker is to give up all opportunities of betterment by evolution. " Labour must always be in a position to upset smooth working, in order to preserve the balance." [2]

" Any device which ties the workers' hands by prohibiting strikes, or giving them an ' interest in the business ' is fatal to the whole purpose for which labour is organised, the gradual abolition of capitalist exploitation." [3]

We assert, on the contrary, that both capital and labour are inherent essentials in production, and that production is the result of their joint application.

[1] *Self-government in Industry*, p. 186, G. D. H. Cole, 1918.
[2] *The World of Labour*, p. 329. [3] Loc. cit., p. 329.

Under the industrial system of the nineteenth century capital and labour were put asunder. The schemes of the Guild Socialists, Syndicalists and others do not repair this defect. If the nineteenth-century system resulted in an attempted tyranny of capital, these proposed twentieth-century systems would end in a tyranny of labour.

Those who can see no remedy for what they regard as a present tyranny, save to raise up another in its place, might well pause to consider calmly and without prejudice, if they can, the claims of a system that denies absolute rights to either party, but instead, by defining their true rôles of partners, would create the social and industrial peace, which is so discomforting to these writers, and with it that increased prosperity which peace ever brings in its train.

The union of capital, labour, and management as partners in profits, capital, and control under a widespread copartnership system, would be the greatest forward movement in the history of industry.

Such a result is possible to-morrow, without a strike, without strife, political or physical, without spoliation or expropriation.

If those who advocate Guild Socialism, State

Collectivism, and the rest—we despair of the Syndicalist—truly have the welfare and well-being of the working people at heart, again we say that they might do worse than step aside for a moment to study the possibilities of a plan that will build Jerusalem without a sword.

The abolition of the wages system, which is Mr. Orage's main thesis in his development of the guild idea, is equally possible, and much more logical, under copartnership, as we have shown. Copartnership is, again, in agreement with the Guild Socialist in his claim for a higher status for the worker—the special thesis of Mr. Hobson—more, copartnership can "offer the goods."

"Production," says Mr. Hobson, "can be almost indefinitely increased, but it must be by a partnership between labour and capital. . . ." [1] It is true he then adds "or between labour and the State, the latter for preference."

We turn to Mr. Cole: "The wage system must be abolished in the sense that it must be made impossible merely to buy labour as cheaply as possible, irrespective of its need or service; instead, labour must share fairly in what the community produces, on a basis partly of need

[1] *Guild Principles in War and Peace*, p. 52, S. G. Hobson, 1917.

and partly of service, but never of market price"[1] —a copartnership doctrine.

Of definite criticism of copartnership by these writers there is very little. They usually confuse copartnership with profit-sharing, and deliberately refuse to see any difference between the two ideas ("the capitalistic device of copartnership, *alias* profit-sharing").[2] They admit its claim to increase profits. They deny its claim to raise wages; a claim never made for it. They mix it up with gain-sharing. ("The worker adds 10 per cent. to his efficiency and gets only 5 per cent. of it as a reward.")[3] As for the claim of copartnership to be "the real peaceful syndicalism,"[3] Mr. Cole dismisses this with a gesture. Copartnership is too attractive; so it is written down as "a red herring."[4]

Turning to another school we find that the Fabians do not mince matters. Copartnership is "a piffling palliative."[5] Yet, for a "fraud and a failure," it receives a surprising blessing.

"The desire of the idealist that the worker should take an interest in his work and feel

[1] *The World of Labour*, p. 417.
[2] Loc. cit., p. 332.
[3] Loc. cit., p. 331.
[4] Loc. cit., p. 320.
[5] *Profit-sharing and Copartnership, a Fraud and a Failure?* p. 16, Edward R. Pease, Fabian Tract, No. 170.

himself to be not a mere hand employed by a master, but a copartner, a part owner of the concern, is well founded, and indeed is largely the root of all industrial co-operation. To this extent the idea of profit-sharing is sound and appeals to every intelligent student of social conditions."[1]

The Fabian writer makes a definite criticism. He says that the average addition made by profit-sharing is 5%—in 1912 the national income was 2,100 millions, of which wages were just under 800 millions; universal profit-sharing, by adding its 5%, might have made it 840 millions—a trifling addition.

This copartnership 5%, which one socialist writer passes on to another, is an invention. Copartnerships are increasing earnings much more than 5%. The examples detailed in these pages furnish abundant proof. They are adding 10%, 15%—in some cases, even more.

Surely this is not a trifling addition, a "piffling palliative"?

Take it a step further. Even on the 5% basis, if it were true copartnership and not mere profit-sharing, there would be £40,000,000 of new *capital* owned each year by the workers: is this a trifling addition?

[1] Loc. cit., p. 14.

If the average dividend on this capital were 10%, it would mean an increased (and transferred) income of four millions added every year through the earnings of workers' capital alone, apart from "the specious 5 per cent." on wages.

This brings us to a larger question. Is there any large margin available in industry for payment of copartnership dividends?[1] In the previous chapter we showed that the total national income, equally divided, would give a comparatively small sum to each.

To what extent is there a residuum for increasing incomes of workers through copartnership, industrial productivity remaining constant?

The "net output" of the Census of Production of 1907[2] is the value of the gross product, less expenditure on raw materials, subsidiary materials, fuel, and some other items. It "constitutes for any industry the fund from which wages, salaries, rents, royalties, taxes, rates, depreciation, advertisement and sales expenses, and all other similar charges have to be defrayed, as well as profits" (including interest).

The capital engaged in the productive industries

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[1] To say nothing of the wages, "possibly three times greater," promised by Mr. Hobson, *National Guilds*, p. 147, 1917.

[2] Cmd. 6320, 1912.

covered by the census, including most, if not all, manufacturing and all mining in the United Kingdom, was estimated at £1,200 millions, employing six million workers.

The "total joint product"[1] was about £550,000,000, made up of:

	£ millions.
Pay-roll, say	400[2]
Balanee	150
	550

Only a part of this balance, which constitutes the "profits" of the productive industries, is available for distribution to shareholders and others. Not only does this balance have to bear the racket of any expenses of production additional to pay-roll, which have not been specially provided for in our estimate, but in addition all book reserves and final appropriations of every kind, except depreciation, as well as taxation, must come out of it, while moreover it includes a considerable amount which is received in the form of profits, as payment for work done by management.

[1] "Net output" from Census of Production as adjusted by Bowley, *Division of Product of Industry*, p. 32, 1919, after deducting £16,000,000 for rent, £10,000,000 for rates, £7,000,000 for royalties, £57,000,000 for depreeiation, and £19,000,000 for advertising and sales expenses.

[2] A round figure. Bowley's estimate for total pay-roll is £404,000,000: wages, £344,000,000; salaries, £60,000,000.

To arrive at a net balance available for division we must certainly reduce the total to £125,000,000, subject to taxation.

Accepting this figure, we have:

	£ millions.
Total capital	1,200
Pay-roll	400
Profit and interest . . .	125
Joint product . . .	525

This gives an average return on capital of 10·4%.

The *Economist* annual figures, based on the published reports of about 1,500 representative companies, show the following results[1]:

Average returns on preference and ordinary capital:

	Per cent.		Per cent.
1909 . .	7·4	1915 . .	10·2
1910 . .	8·2	1916 . .	13·2
1911 . .	9·9	1917 . .	13·3
1912 . .	10·2	1918 . .	13·6
1913 . .	11·9	1919 . .	13·0
1914 . .	10·9	1920 . .	15·2

The dividends since 1915 represent payments in inflated money, and are abnormal. The pre-war return averaged less than 10%.

Let us now apply the copartnership formulæ[2] to the joint product as above estimated[3]:

[1] *The Economist*, February 19, 1921. [2] See p. 23 et seq.

[3] The figures are based on the foregoing totals derived from the Census of Production, and are stated in £ millions.

(1) Equal division :

	Wages.	Share of surplus.	Total.
Labour receives .	£400	£32·5	£432·5
Capital receives .	Interest. £60	32·5	92·5
			£525·0

The dividend on wages is 8·1%; the overall dividend on capital 7·7%.

(2) Proportionate division :

	Wages.	Share of surplus.	Total.
Labour receives .	£400	£16·25	£416·25
Capital receives .	Interest. £60	48·75	108·75
			£525·00

The dividend on wages is 4·06%; the overall dividend on capital 9·06%.

(3) Standard formula :

	Interest.	Share of surplus.	Total.
Labour receives .	£300	£137·5	£437·5
Capital receives .	£60	27·5	87·5
			£525·0

The dividend on wages is 9·4%; the overall dividend on capital, 7·3%.

Thus, the dividend on wages, which would result from application of copartnership division to the whole of British productive industry, on the basis of productivity before the war, would range on average from 4% up to 9·4% on the most liberal method of division.[1]

Our application to productive industry applies to half the wage-owners and half the pay-roll of the Fabian essayist; the possibilities for wage-earners outside the productive industries—agriculture, distribution, etc.—would hardly be so favourable. Of the total net product in the census of production summary, in most of the industries enumerated, pay-roll absorbs over 60%, and there is a large group at over 80%.

The fact is, as we have previously pointed out, the productive industries are already sharing profits in current wages. If the whole of the above balance were allotted to labour, after deduction of 5% interest on capital, the dividend on wages would be $16\frac{1}{4}$%.

The application of copartnership methods will, at any rate, serve to remove the current mis-

[1] The Godin formula, which divides in the proportion of interest to wages, would show a dividend of 14% on wages.

apprehensions concerning the "surplus," so assiduously disseminated by *entrepreneurs* of socialist theories.

All these are criticisms of advocates with other goods—dangerous goods—to offer, from whom no welcome to copartnership can be expected.

Realising this, we can the more readily discuss the trade union attitude.

Trade unions were established to create a collective organisation for labour. In this capacity they fill an admirable and, as far as we can see, an essential function.

Their collective bargaining for wages, almost since the beginning, has included bargaining for the hours of labour, and latterly has widened its scope to include most of the internal conditions of work in industry. In addition, the trade unions are of increasing importance as insurance associations.

But of recent years the unions have assumed another complexion. Associated with collectivist, syndicalist, or other subversive political aims, sometimes definite, sometimes vague, many trade unions have become primarily political and their collective bargaining merely a tool for political ends.

In a famous—or infamous—pamphlet issued

by the "South Wales Reform Committee," in 1911, entitled "The Miners' Next Step," this step is defined as a continual agitation for higher wages and shorter hours, "until we have extracted the whole of the employers' profits." This achieved, they would be able to take over the mines as if they were their private property. The alleged profiteering of the capitalist would simply be substituted by the avowed profiteering of the proletariat.[1]

Mr. Cole states a little more academically the aim of "the unions to put into practice the direct expropriation of which they dream, to make industry actually unprofitable to the capitalist."[2]

Though the average worker has little interest in these political aims, where the organisation of the unions is in the hands of revolutionaries it is hardly to be expected that copartnership will receive a fair hearing.

Where a trade union still retains its true functions and such trade unions, we believe, are alone truly representative of the real working man we have a totally different situation.

Paradoxically, while the Syndicalist, Guild

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[1] Mr. Harold Cox, Coal Commission, 1919; J. A. R. Marriott, *Fortnightly Review*, Oct. 1920.

[2] *World of Labour*, p. 391.

Socialist, and the rest are all for the abolition of "wage-slavery," the orthodox trade unionist, faithful to function, is the rigid guardian of the standard wage, and perhaps his strongest *bona fide* objection to copartnership is that it keeps wages down. "If you can pay a copartnership dividend, why do you not increase wages ?" is his argument.

Here, again, is to be noted a constant confusion between profit-sharing and copartnership. Trade unionists have not studied copartnership seriously, and in this neglect they have made a great mistake.

The criticism that copartnership pays dividends at the expense of wages (with the travesty, sometimes met, that copartnership actually lowers wages), probably arises from this confusion of thought.

Copartnership firms pay standard wages invariably. No instance can be quoted to the contrary.

The copartnership dividend, which is paid to the workers, would go to the shareholders if there were no copartnership. It is a direct transfer of income from shareholders to employees.

But, it may be urged, admitting this, why not include it in wages ? Here we strike a widespread fallacy. Apart from the great objective

of copartnership to make workers owners of capital, by means of capitalisation of the copartnership dividend, there is a further important consideration. Wages are part of the cost of production. Manufactured goods compete on cost of production. Selling price constantly tends to coincide with cost of production. The copartnership dividend, if any, is paid out of the surplus, if any, which remains after the goods have been sold.

The copartnership dividend does not, therefore, increase cost of production, whereas, if it were included in wages in advance, it would form part of the cost, and, by raising the selling price, would tend to reduce sales, and, therefore, to reduce employment, or alternatively, would increase the cost of living.

The distinction between "high wages" and "standard wages" *plus* copartnership dividend, in its bearing on cost of production, is most important. It offers the reason why, under copartnership, we can hope to create a higher standard of living without increasing costs or raising prices. The futility of trade union methods in this direction has been sufficiently demonstrated in the disastrous history of British trade following the Armistice of 1918.

The opposition, suspicion, or, at best, lukewarm approval of copartnership by trade unionists pre-dates, however, the growth of the "greater unionism" with its leftward tendencies.

Early experiences of profit-sharing were unfortunate. The Briggs scheme, and its relation to trade unionism, we have previously discussed. It appears to have been intended as a substitute for trade unionism.[1]

When the South Metropolitan scheme was launched, some years later, there was again cause for suspicion.[2] Here a new trade union had been established, and the copartnership was intended to replace it.

Lord Furness's scheme involved the abrogation of a trade union principle.[3]

These instances can be supplemented by others from France.

Maison Bord, Paris (pianofortes) started a most liberal profit-sharing in 1865, under which the whole of the profits, after payment of 5% interest on capital, were paid over to the workers. In 1883 M. Bord, giving evidence before a committee, felt justified in saying of his employees: "Why should they strike? They would only be striking against themselves."

[1] P. 180. [2] P. 138. [3] P. 66.

Nevertheless, the employees did strike some years later, demanding the abandonment of the profit-sharing, and a 10% increase of wages in lieu. "The disappointment of his failure is said to have caused M. Bord's death."[1]

Piat et Cie, Paris (engineers), practised profit-sharing from 1881 to 1905, when their moulders struck for higher wages, shorter hours, and abolition of piece work.

They stated that "they preferred, when all was said and done, the certain to the uncertain; that some of the younger men did not know whether they would ever reach the promised land, whether by way of profit-sharing or of pensions, and that they therefore preferred the immediate advantages claimed. . . . In any case, the trade union had spoken and the trade union must be obeyed."[2]

That copartnership, as we know it to-day, is put forward in opposition to trade unions, or as a substitute for trade unions, its worst detractors would hardly suggest. Though existing copartnerships have not been free from troubles with trade unions, these have not arisen from any attack on trade unions from the copartnership end—quite the reverse. Under copartnership

[1] Cmd. 7283, p. 121. [2] Loc. cit., p. 119.

"men must be as free to combine where it exists as where it does not, and all profits shared must be over and above the rates of pay and other conditions generally observed in a particular district."[1]

Trade unionism is a strong and healthy growth in most copartnership businesses to-day, and between orthodox trade unionism and copartnership there should be no antagonism; their modes of thought are in remarkable unison.

Mr. J. R. Clynes, in the House of Commons (Ministry of Mines Bill, 1919), said that "in his judgment there were great advantages to organised workers themselves in such [copartnership] schemes if they were worked in the right spirit, and in the right way. Some trade union leaders thought it would take the soul out of trade unionism. He did not believe it at all. He believed such schemes could be established and extended, and still leave absolute freedom to the workmen, while they enjoyed whatever financial advantage a system of copartnership might bring them."

This quotation is representative of the present-day opinion of enlightened and constitutional

[1] *Copartnership after the War.* Memorandum submitted to the Reconstruction Committee, February, 1917.

trade unionism. To such trade unionists the study of copartnership can be recommended as offering the surest possibilities for the workers' progress in this generation.

The objection that copartnership destroys "solidarity" is really an objection of political trade unionism.

"If any trade unionists imagine," said a working copartner,[1] "that the sense of ownership leads to copartners being detached from the general body of workers in the same trade they are very much mistaken."

If proof is required of the solidarity of trade unionists in a copartnership, the instances above mentioned are quite sufficient.

It is true that another solidarity, centred round the works, is created. This solidarity *is* copartnership, and needs no apology. The attachment of a copartner to the concern of which he has become part owner, with a voice in its control, with the status and security which he has so long lacked—surely these are benefits that deserve better than to be scoffed at as "tieing" the workman to his job. Believing firmly in the solid common sense and sound instinct of the working man, we

[1] Mr. W. G. Harrison, Walsall Lock & Cart Gear, Ltd., at Labour Copartnership Association Conference, 1914.

take an optimistic view of the future relations of trade unions and copartnership.

During the recent industrial unrest in Italy the Italian Engineers' Association passed a resolution calling for :

> "The re-ordering of the industrial organism, in which the salary system shall be superseded, and in which capital and labour, both intellectual and manual, shall work together with renewed faith, sharing equitably the profits of production."

Our own Amalgamated Society of Engineers—fallen far from grace to-day—included amongst its original objects :

> ". . . Extending its system of investments for co-operative productive purposes to assist in altering the competitive system of industry for a co-operative system,[1] so as to secure for the worker a full share of the fruits of his labour."

Springing as they do from a common historical origin, the *rapprochement* of trade unionism and copartnership is long overdue.

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[1] *Scilicet* (A.D. 1850) copartnership.

CHAPTER VII

THE FUTURE OF COPARTNERSHIP

§ 1

THERE was a recent epigram that "miracles, driven from their own field, have taken refuge in political economy."

We claim no economic miracles for copartnership. No Golden Age awaits this present day and generation.

A well-known employer has expressed the opinion that in the industrial system of the future many varieties of organisation will exist side by side. "One may be an autocracy built up by the genius of a remarkable personality; another may be run by a board of experts; another may be a small family concern; another may be organised on copartnership lines; and another on the lines of a co-operative store." [1]

We agree that the development of industry in the future is likely to be heterogeneous.

But, if copartnership is to reveal its finest and

[1] *Some Problems of Modern Industry*, p. 41, W. L. Hichens. Nisbet & Co., Ltd., 1918.

fullest possibilities, copartnership practice will need to be more widely spread.

The present sprinkling is sufficient to prove copartnership successful and practicable; but inadequate for the realisation of its whole purpose and meaning, whether by employers or by employed.

This essential and early extension of active copartnership should be dispersed as widely as possible over many industries.

Development within a single industry is only a partial proof of its potentialities, as witness the criticisms of the gas copartnerships.

We come back to our original claim for copartnership as a natural stage in the evolution of industry. The nineteenth century furnishes a continuous record of this evolution. With the development of large-scale production, the former functions of the employer-capitalist have become divided between management and capital. Capital, again, under the joint-stock system, is now distributed amongst numerous owners. The functions of the worker, through sub-division of labour, have become more and more specialised. The standard wage, which replaced the iron "wages fund," in its turn, has become wages incorporating an indefinite share of profits.

Copartnership, with its readjustment of the relationship between labour, management, and capital, is only a further step forward in this orientation of industry.

That the appointed time of copartnership is at hand there are many indications.

"The hope of the country," said Lord Cowdray in his Lord Rector's address at Aberdeen, "lies in the substitution of the idea of partnership for the idea of war in industry." [1]

"Nothing," says Mr. J. H. Thomas, "but the hedge of hostility, mistrust, and suspicion which from time immemorial has separated the employers and workers, prevents the country from sharing the indisputable benefit, which would accrue to individual employers and workers under the logical development of the experiment—a universal scheme of real partnership. This hedge must and will be broken down, and then the nation will be filled with astonishment that partnership was not an accomplished fact years ago." [2]

It would not be difficult to fill a chapter with similar contemporary appeals for partnership, from both employers and labour leaders.

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[1] October 22, 1920.

[2] *When Labour Rules*, p. 15, J. H. Thomas, 1920.

THE FUTURE OF COPARTNERSHIP

The discontent of the workers—expressed, as it often is, in such foolish and indefensible fashion—is itself proof, and warning, that the time is ripe for copartnership development. The alternative is recurrent and growing insurrection, following the routine laid down by Syndicalists and Guild Socialists. Of these false doctrines, Syndicalism is dangerous, and would destroy our national heritage; Guild Socialism is specious, a sophist's reconstruction of industry. Its aims are well-meaning enough, but its proposals are such as to bring, down from our veteran, economist the just criticism that "the vast difficulties of modern business organisation are so completely left out of account as to imply that they have never been seriously studied."[1]

The utter ruin into which Syndicalism and Guild Socialism would lead us makes State Socialism seem innocuous by contrast. Large-scale experiments in State Socialism, following 1914, have, however, left it friendless and discredited. Sidgwick's terse objection to Socialism, "not because it would divide the produce of industry badly, but because it would have so much less to divide,"[2] has been realised by most

[1] *Industry and Trade*, p. 844, Alfred Marshall, 1919.

[2] *Principles of Political Economy*, p. 513, H. Sidgwick, 1883.

people, and not least by the manual workers, during recent years.

Far more mischievous is the widespread doctrinaire propaganda, which preaches a general despair. The vague discontent and suspicion, thereby created amongst the workers, are serious obstacles in the way of all sincere efforts at reconciliation.

The worker is taunted with his condition of "wage-slavery"; thus through history have agitators goaded men to foolish action. He is fed with phrases, the shibboleths of the new age: he is "class-conscious"; he lacks "status."

As Rousseau taught in France, Owen in England, evil resides only in social institutions, and by the simple operation of an industrial *vice versa* all will be well in this worst of possible worlds.

Thus out of "class-consciousness" will be developed the "dictatorship of the proletariat," with the consequent "expropriation of the capitalist"—incidentally of the "bourgeoisie," including the doctrinaires themselves, unless they are willing to become "slaves" in their turn.

At the bottom of this poisoned well we will, none the less, find truth. The real basis of the aspirations of labour, in their modern, distorted presentation, is to be found in a conflict of human

motives. This conflict arises from circumstance and was created neither by capitalists nor by labourists. It is the price paid for civilisation by each generation that passes by.

In the world we live in, a constant struggle between economic needs and human structure and impulses is inevitable.

To create a subsistence man must toil by the sweat of his brow. In this rôle of economic man, he must never cease production, for, even when he has produced all he needs for himself, he must work on to create savings for the future.

Whether he is "his own master," or directed by selfish—or unselfish—employers, or by an all-wise State or guild, there must always be this clash between the "primal curse" of man and his desire for personal freedom.

It is a problem that seems permanent in social organisation. Bolshevism dealt with it by the simple invention of the conscription of labour. The harnessing of atomic energy by man, bringing infinite productivity, may solve it for future generations.

The defect of the nineteenth century system was that it made no attempt to adjust these competing human claims. The economic man

was developed—exploited, if you like; the human individual ignored.

The defect of Socialism would be that the economic necessities of civilisation, in the absence of any real incentive, would, in their turn, be neglected, and a new *laissez-faire* would bring down our civilisation in ruins.

It is the merit of copartnership that it effects a common-sense reconciliation of these conflicting interests. By bringing workers into joint ownership and responsibility, it provides the democratic means, whereby the essential demands of production may be harmonised with the individual freedom and personality of the producers.

Copartnership, as a means of reconstruction, is based on the recognition of the joint nature of production.

Through its method of sharing out it answers the demand for a just (which, we may hope, will also be a fuller) share in the joint product of industry.

Through its method of creating joint ownership it interprets and answers the confused cry for "status" and "control," and thereby again offers the opportunity for a true balance between economic demands and human welfare.

"Human nature," says Lord Leverhulme,

" has two very strongly marked characteristics —it is at one and the same time gregarious and individualistic." [1]

Copartnership satisfies both of these human instincts and develops them in mutual harmony.

On the one hand, it stands definitely for freedom of individual enterprise—not only freedom for each separate association or undertaking, but also, within each association, for freedom of personal development and expression—freedom of opportunity—for all the individuals who comprise it.

That " new respect for the individual and his rights which modern feeling demands " [2] is of the spirit and essence of copartnership, whereas all current socialistic proposals are the negation of respect for individual freedom.

While, at the same time, by association of all concerned in the undertaking, whatever their " function," in a common enterprise, in the results of which all may share equitably, it brings out and develops that human capacity for collective action, whereby the whole is made greater than its constituent parts.[3]

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[1] *The Six-hour Day*, p. 115.

[2] *Principles of Social Reconstruction*, p. 29, Bertrand Russell, 1918.

[3] This subject is discussed in *Instincts in Industry*, Ordway Tead, 1919.

§ 2

The conception of copartnership here put forward cannot be realised in a day. Progressive copartnership will not spring fully armed from the head of the existing system.[1]

There is needed the good-will of the two chief parties concerned, much forbearance and a true acceptance of partnership, both in letter and in spirit.

Copartnership, firmly founded on its economic basis, will then progress by sure stages to complete growth.

The moral claim of progressive copartnership rests on the equitable nature of its economic adjustments; the one is the complement of the other.

This economic basis is dual. First, the co-sharing of surplus on the most equitable plan which can be worked out, having regard to all the circumstances.

Second, the co-sharing of ownership, through capitalisation of the share of surplus, the co-partnership dividend.

The dual sharing is essential to copartnership.

[1] Capitalism comes from *caput*, head; Ruskin would have delighted in a classical-economic origin for copartnership, based on such an etymology.

If there be no easy means of acquisition of capital, there is no copartnership, no broad road opened to a better world of industry.

Many criticisms of copartnership are based on the popular confusion with profit-sharing. The hackneyed quotation of copartnership failures —when honestly adduced—arises from this confusion. Many profit-sharing schemes have failed, just as many ordinary businesses have failed; there is no reason to suppose that they have failed in greater proportion.

Every copartnership, applied to an existing "capitalist" business, and founded on the dual sharing, which is a *sine qua non* of copartnership, has endured.

Contrary to current belief, there are no copartnership failures to describe. Even the much-quoted Briggs scheme of fifty years ago was not a real copartnership—it was a profit-sharing, with certain advantages to shareholders; but no capitalisation of dividends, and no easy means of acquiring capital.

Detractors of copartnership on the labour side go further, and confuse copartnership with gain-sharing. In a recent legal action [1] it was claimed that copartnership dividends were a form of

[1] Braithwaite *v.* The Amalgamated Society of Carpenters;

payment by results, and therefore not to be accepted by members of the trade unions involved, which discountenance payment by results.

To describe copartnership as payment by results, in the usual meaning of that term, or as gain-sharing, is a travesty of facts. Gain-sharing is a method of payment for individual production. It is a specific contract to supply labour for a particular operation at a definite rate of payment, based on output, irrespective of profit or loss resulting. In so far as such methods may be valuable or desirable, gain-sharing can exist within a copartnership, as we have shown[1]; but

Ashley *v.* The General Union of Operative Carpenters and Joiners. (*Times Law Reports*, March 16, 1921.)

The trade unions claimed to exclude the plaintiffs from membership by reason of their participation in Lever Bros.' copartnership scheme. Section 4, sub-section 1, of the Trade Union Act of 1871 provides that no Court should entertain any legal proceedings to enforce damages for breach of an agreement between members of a trade union as such concerning the conditions on which they were employed. Mr. Justice Eve held that the action was brought to enforce an agreement of this character and that it came therefore within the mischief of Section 4. Thus the action could not be maintained, as the Court had no jurisdiction in cases arising under this section.

On appeal, however, this judgment was reversed, and the Court decided that the copartnership scheme did not involve payment by results in any form. Thus the claim of the trade unions concerned, to pronounce upon copartners, what Lord Justice Younger called "a sentence of industrial death," was not maintained. (*Times Law Reports*, July 1, 1921.)

[1] P. 112.

there is no connection between the two, and it makes no difference to the copartnership whether gain-sharing operates as a form of remuneration or whether it does not.

Copartnership is what its name implies. The worker, the manager, the shareholder, throwing into the joint task of production their several contributions, agree to share the product—to stand together in profits and in losses. The joint product is the result of the sum of the individual contributions, as modified by the uncertain influence of circumstance. The copartners receive their sharings—which to a certain extent may be graded as we have indicated [1]—but they share as copartners collectively, and not on any individual result.

It is perfectly true that this means that the drone shares equally with the active worker; though here again grading may serve as a corrective.

This was F. W. Taylor's criticism of copartnership. [2] Taylor was obsessed with the idea that human labour is a mobile form of machinery; copartnership, both in its frank recognition of human nature and in its collective sharing of

[1] P. 53.

[2] Cp. *Primer of Scientific Management*, p. 27, F. B. Gilbreth, 1912.

surplus, is far removed from "scientific management."

The copartnership principle is that every copartner is worthy of his share, and if the copartner be a drone, that is the fault or misfortune of those who admitted him into their copartnership.

We spoke just now of sharing profits and losses, which brings up another criticism of copartnership: "Sharing profits, yes, but how will you share losses?" The objection is purely verbal, but, as it was raised by so shrewd a critic as Mr. Gladstone it had better be dealt with.

If a copartnership enterprise makes a loss, without becoming insolvent, the loss is carried forward and reduces subsequent profits, in accordance with ordinary business practice. Thus the copartners share in the loss, first, by loss of copartnership dividends, later, by reduced dividends, as well as by loss of dividends on share holdings. If there is a loss of capital, copartners share the loss to the extent that they have become shareholders in virtue of their copartnership. Finally, under their present insecurity of tenure, it is clear that the workers also share losses by losing their employment when there is slackening of demand—a disability which copartnership, by creating a nest-egg for the worker, as well as

by other means, may eventually remove. It seems hardly necessary to adduce further proofs that the copartner shares losses as well as profits.

Coming to actual experience in this direction, we have already referred to the loss-sharing provisions of existing copartnership schemes.[1]

In Thomson's scheme, when the profits were insufficient to pay the interest charges, the workers actually made up the deficit out of their wages.

Taylors' copartnership paid no dividend during two years shortly following its inception. Dividends under the Nelson scheme were suspended for several years.

The South Metropolitan Gas Company, owing to the rising cost of production, were unable to pay copartnership bonus during three recent years. "Though no bonus was paid by this company during the years 1918–20, yet the spirit animating the copartnership has been as active and keen as in the days of prosperity."[2]

Clear of these criticisms, let us now endeavour to sum up the claims of copartnership, considered simply as an economic system.

In so far as the copartnership method of division may increase the share of labour at the

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[1] P. 153.

[2] Dr. Charles Carpenter, communication of March 8, 1921.

expense of the share of capital, copartnership has an important claim for consideration as a practical method of effecting those " transferences," by which the present economic inequalities may be adjusted—a subject to which the modern school of " welfare economists " devotes considerable attention.[1]

Copartnership, regarded from this point of view, is a method of transferring future, potential earnings of industry from one set of people to another, but only as the result of energy and exertion on the part of those to whom the share of surplus is transferred.

It is quite possible that, in this transference, some loss of joint product will follow. We have already shown, and it is well known, that there is little margin for transference available under existing productivity.

But this need not drive the advocate of copartnership to pessimism.

" If we are confident that the world, or any particular community, is rich enough to enable every member of it to live in human comfort, our confidence must be based on our general belief in the versatility and resourcefulness of human

[1] See *The Economics of Welfare*, A. C. Pigou, 1920; *Inequality of Incomes*, Hugh Dalton, 1920.

intelligence, and our anticipation that the reaction of a more even distribution upon the energies, tastes, and morals of the community will be such as to heighten rather than to lower the effectiveness of human effort." [1]

Under progressive copartnership we may reasonably look for an increasing surplus arising from two main sources.

First, from saving of waste—waste of time and materials—within industry, and, outside it, from saving of wasted time and energy now dissipated in industrial strife. There is a Niagara of human energy running to waste to-day.

Second, from increased productivity, which is the sole source of real surplus. Such increased productivity would be the result of conscientious application of labour, interest in the work, a feeling of responsibility, better direction of effort, increased invention, mutual organisation.

If copartnership, with its equitable sharing and its raising of the workers' condition, cannot in the long run bring about these results, then we must despair of all human progress.

The Industrial Revolution of the late eighteenth and early nineteenth centuries was, above all, characterised by an enormous increase of pro-

[1] *Common Sense of Political Economy*, p. 655, P. H. Wicksteed.

ductivity. This increase was continued through the Age of Invention which followed, and the growth of national wealth during the nineteenth century was largely due to this cause.

But we are dropping behind. Productivity is probably less than it was twenty years ago. Certainly we are not *increasing* productivity.

America during the last twenty years has outstripped us in output; the comparison is remarkable, and has never been called in question.

The average productivity of American and British industry, as brought out in the Census of Production, was shown to be in a ratio closely approaching 3 : 1; 6,019,746 British workers in 1907 produced goods valued at £1,617,000,000; 6,615,046 American workers in 1909 produced goods valued at £4,134,000,000.

This inferiority in output lies at the door both of workers and of organisers.

It is partly connected with the independence of the American worker and his freedom from the illusion that by restriction of output there will be more "work" available, and "therefore," more wealth to be shared by the worker.

It is partly connected with the lesser use of machinery in the United Kingdom, sometimes the fault of employers, unwilling or unable to

adopt modern methods; and at least as often, the fault of operatives, who put obstacles in the way of economical use of automatic machinery and similar aids to production.

The census records show that America uses increased mechanical power in much the same proportion as her productivity exceeds our own.

Thus, in the boot and shoe trade in the United Kingdom, there was 172 horse-power employed for every thousand workers; in the United States 486 horse-power.

Even in the premier British manufacturing industry, the cotton trade, the American output exceeds the British:

	U.S.A.	U.K.
Average output per worker . .	£332	£236

The horse-power employed is in similar proportion:

	U.S.A.	U.K.
Horse-power per 100 workers .	343	221 [1]

Copartnership or no copartnership, increase of output is essential if we are to compete successfully in the markets of the world. A century of decline and decay is before us if we cannot solve this problem. Methods for dividing up surplus will be of no avail if there is no surplus to divide.

[1] *The Economist*, February 19 and March 5, 1921.

We have failed in late years to achieve full output; may not copartnership offer a means whereby these difficulties will be overcome?

And more, may we not look to the new spirit of copartnership, through increased personal interest and through invention, to restore Great Britain to her rightful place as the home of productivity?

The potential wealth that is being lost every day through inferior productivity, wealth that can be made actual by copartnership and in the distribution of which, under copartnership, all who have joined in its production will equitably share, is a source from which a new and widely diffused prosperity can be created in our own time.

The complete results, we repeat, cannot be achieved in a day. A generation of copartnership is needed before its full harvest can be realised.

Not only must we make sure "that each advance . . . be well established and consolidated before making new calls on the chivalrous spirit that lies deep down in human nature,"[1] but we have also to bear in mind that the economic benefits of copartnership are of a cumulative nature, and are only fully appreciated after a number of years.

[1] *Industry and Trade*, p. 840.

Again, the application of copartnership to existing enterprises—the process which has been termed "the transformation of capitalism"—must necessarily result in the existence alongside each other of copartnerships greatly varying in the extent to which the copartnership has developed. In the growth of progressive copartnership, as we have seen, there are many stages, and the rate of progress is bound to vary with circumstances.

In the case of the oldest English copartnership—the South Metropolitan Gas Company—many of the original copartners must now have retired, and in their retirement must be realising the economic benefits of copartnership. The newer generation will commence their copartnership with these examples before them.

If the recent rate of progress is continued, Taylors' employees could own the business in another ten years, and Lever Brothers' employees could attain an equal holding with the founder.

No English copartnership has yet developed to completion. In the Godin business the copartners have had full ownership for twenty-five years. There are many enterprises in which such complete ownership would be impossible, owing to the large capital required.

Progressive copartnership can proceed just as

far as common sense allows. It permits of great elasticity and constant adaptation to environment.

If we could see in the immediate future a wide adoption of copartnership, the centenary of Mill's famous prophecy would find us living in a new world of industry.

§ 3

From time to time it has been proposed[1] to establish copartnership by Act of Parliament.

Such ideas are contrary to the true principles underlying copartnership.

Copartnership involves a sacrifice on the part of every employer who embraces it. That sacrifice must be voluntary.

Where, however, an enterprise is under public control, we get a special case of copartnership application. Under the competitive system competition ensures that the consumer's interests are protected. Where there is monopoly this may not be the case. The public utilities, for instance, are monopolies, which fix prices for their services, unchecked by competition.

Immediate examples are the Post Office and telephones, and the various municipal undertakings—gas, water, electricity, tramways.

[1] In France, 1906, 1910, etc.; in House of Commons Bill, 1912; in Massachusetts, 1912.

To all these national or municipal enterprises copartnership is applicable. The sharing would be of the Gas Company type, bringing in consumer, shareholder, and employee.

The method would be simple division of surplus—the consumer receiving the greater share, say not less than 60%. Thus, a simple formula would be:

60% to consumer.
20% to employees.
20% to shareholders (the taxpayer).

The new gas company division, 75% to consumer, 12½% to employees, 12½% to shareholders,[1] is a formula adopted for a precisely similar sharing.

The consumer's share can be returned in the form of a rebate, as in gas, electricity, telephones; or in the form of reduced charges, as in the Post Office. The copartnership dividend to employees can be paid in Government or municipal stock, which may be interest-bearing or surplus-sharing. The complete copartnership is, of course, impossible, and in a sense unnecessary, as the employees are already, in common with their fellow citizens, part owners, though with a diluted sense of ownership, it must be admitted. The

[1] P. 142.

distribution of dividends, partially or entirely, in shares, preserves the secondary advantage of this copartnership method, the encouragement of thrift.

There is an existing precedent for state copartnership in the agricultural schemes, to which previous reference has been made.[1]

The case of railway transport is parallel, except that here the shareholders are private individuals. The application of copartnership to the railways, in their existing financial condition, would obviously present great practical difficulties.

There is a strong demand for copartnership amongst the American railway workers. What is known as the "Plumb plan" is based on state purchase and transfer of all railroads to a corporation controlled by representatives of the public, management, and workers in equal numbers, with equal division of surplus amongst the three copartners.

These suggested "consumer" copartnerships are all services of a monopoly character. The coal industry so nearly approaches this definition as to be clearly amenable to similar analysis. Coal is a commodity, but its supply to home consumers is a service of precisely the same order as gas and electricity. If the basic price of coal

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[1] P. 200.

is fixed by the State, then the industry falls into the same category as the Post Office and the railways, and the same formula is applicable.

The Sankey Commission of 1919 brought out several schemes for profit-sharing and copartnership. Professor Cannan, Lord Bledisloe, and Lord Gainford all put forward definite proposals.[1]

A widely circulated suggestion under the title of "Cosmos" involved equal division of surplus, the labour share being pooled and distributed through the trade unions.

In the early months of 1921, following the course of joint discussion laid down at the strike settlement of 1920, a profit-sharing plan (frequently but erroneously described as a copartnership) was agreed in principle, both by employers and men's representatives.

The tentative division was understood to be: basic wage to miner and basic profit to owner; any surplus to be divided, say, 75% to miners and 25% to owners; losses to be carried forward.

The fatal defect of this formula is the absence of any sharing with the consumer.

Assuming an equitable formula, however, the question then arises: Is the profit-sharing to be

[1] Report of Coal Mines Commission, *The Times*, March 25, 1919.

based on the results of individual mines or collectively over the whole industry?

It is well known that mines vary in productivity owing to physical causes. With basic wages to miners and basic profits to owners, the surplus to be divided would thus vary from mine to mine. The owners, therefore, found the collective sharing unacceptable, and, since wages contain an element of profits, they also favoured local rates of basic wages.

The miners, on the other hand, in accordance with the principles of trade unionism, desired a national standard of wages, which led them to take a similar attitude towards the profit-sharing.

Considering the whole question from the detached standpoint of copartnership theory, the proper arrangement would appear to be: standard national basic wages, standard national basic profit, but sharing of surplus based on the profits of individual mines.

Labour's share of surplus would be partly paid in shares, thus converting the profit-sharing into a true copartnership.

The public utility nature of the coal industry, at any rate, in so far as home trade is concerned, needs to be emphasised. A profit-sharing scheme in this industry, which leaves the home consumer unprotected, must inevitably lead to difficulty.

§ 4

National copartnerships, such as we have just outlined, can only apply in the case of public utilities within our previous definition.

Were copartnership in its ordinary applications to become universal, no nationalisation of industry is thereby involved. Under copartnership each enterprise would retain its own individuality and freedom.

In this development of individuality—of the firm, as of the human beings who comprise the firm—in healthy competition and rivalry, we shall attain both national wealth and national welfare.

In the democratisation of industry within each individual undertaking, based on copartnership, we reach a true "redintegration." It is here that progressive copartnership rises above any mere formula for sharing profits; above any schedule for human organisation on collectivist lines, and offers a practical, available and natural means of industrial progress and social betterment.

Copartnership has been in the process of experiment for more than fifty years. It has passed through difficult times and has suffered from empiricism. For its revival and triumph two things are needed.

First, a considerable extension of copartnerships initiated by employers. If every profit-sharing could be converted into a copartnership to-morrow, the foundation would be assured.

Second, a sympathetic re-examination of co-partnership principles by the leaders of labour.

At present copartnership is presented mainly by employers. It is thus apt to be written down as " a capitalist dodge."

Nothing could resist a demand for copartnership, developing from within, based on a full realisation of the true meaning of copartnership and its message of hope to the worker.

The creation of copartnerships in each organised industry, through the joint co-operation of employers and trade unions, would be the crowning achievement of collective bargaining.

Meanwhile, the enlightened employer will not stand waiting for labour to make the first advances.

If he accepts copartnership as a practical policy—neither a compromise nor a makeshift—his path lies straight before him.

In these matters, Henry Ford's dictum is sound common sense: " The employer must meet the employee half-way, and always be there a little ahead of time."

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Printed by Hazell, Watson & Viney, Ld., London and Aylesbury.